HARMONY BETWEEN LABOR AND CAPITAL

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BY OSCAR NEWFANG

THE ROAD TO WORLD PEACE

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Harmony Between Labor and Capital

An Essay on the Welfare of Nations

By

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PREFACE

With the exception of international war, there is no cause of disturbance to the welfare of nations so widespread and so destructive as industrial warfare. Not only has it completely destroyed responsible government in two of the great nations of Europe and established in their stead the dictatorship of a minority, but in all other great commercial countries the effect of industrial strife has been extremely disturbing and destructive to the economic welfare of the average citizen and of the entire nation. The recent experience of England with a general strike is only an exceptionally severe example of the destructiveness of the continuing antagonism and strife between labor and capital in all industrial countries.

An attempt is made in this volume to lay bare the basic causes of this strife and to present a comprehensive and final solution of the problem of establishing harmony between labor and capital. The plan presented will doubtless be considered by

many readers rather complicated; but it must be remembered that the problem itself is very complicated. If this were not so, the solution would have been found and applied long ago.

Ultimately, we feel, there must be found some method of relating standards of living to social usefulness, or production service, though under present industrial management this has not yet been found possible on any just basis.

Unquestionably the welfare of any people as a whole is directly related to the productivity of that people. The difficulty is encountered when it is attempted to apportion returns on the basis of individual productivity.

American Federation of Labor,
Executive Council Report, Proceedings, 1921.

Organized labor of America may be said to be inspired by four great purposes:

First—To obtain a compensation for service rendered comparable with that received by any other group or factor in industry;

Second—Security of employment, freedom from discharge from work and unemployment;

Third—Democratic participation in all the forces, all the factors and powers that influence or affect their direct means of livelihood;

Fourth—To improve upon the processes and manufacture of production in which they are engaged, for we realize that

markets for the products of labor must be safeguarded and must be advanced if labor itself is to protect itself.

Matthew Woll, Vice President, American Federation of Labor, to the Convention of the National Association of Credit Men, New York, 1926.

What we all want from this economic system is greater stability, that men may be secure in their employment and their business; assured returns to savings, with less hazard and speculation; increasing standards of living to all of our people, not only through increased stability of employment and business but through constant application of invention and steady elimination of industrial waste; an increasing diffusion of wealth; greater independence of business from external control earned by greater responsibility of business for internal control; a protection to the public from tyrannical action, monopoly, and unfair practices by the minimum of necessary governmental action and the maximum of responsibility to public interest from those who direct industrial organization and who lead labor.

Herbert Hoover, Secretary of Commerce of the U. S., American Review of Reviews, February, 1926.

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CAUSES OF INDUSTRIAL DISCORD

CHAPTER I

THE WAGE SYSTEM

Antagonism Between Wage and Dividend

If one person should furnish the lumber and other materials needed to make a chair, and another person should make the chair with these materials; the former would be a capitalist and the latter a laborer. Their contributions toward the finished product would be capital and labor. Suppose that the materials cost two dollars and the chair could be sold for five dollars. There would be the creation of additional value of three dollars through the manufacture of the chair.

In dividing this added value between capital and labor it is obvious that the larger the share given to capital, the smaller would be the share that remained for labor; and, vice versa, the larger the share given to labor, the less would be the share of capital. As long as the cost of the materials and the selling price of the chair remained constant, there would be an antagonism between the inter-

ests of the laborer and those of the capitalist, between wage and dividend. An increase of the wage would necessarily mean a decrease of the dividend, and a decrease of the wage would necessarily mean an increase of the dividend.

In a large modern industry the capitalists furnish not only the materials which are worked up into the finished product, but they also furnish the buildings in which the work is done, the machinery and tools with which manufacture is carried on, the transportation by which the raw materials are brought to the factory and the finished product taken to the market, the management and oversight necessary for successful co-ordination of the numerous processes in the manufacture, the salesmanship and the advertising necessary to sell the finished product, and the accounting necessary in purchasing, costing, selling on credit terms, etc. While all of this greatly complicates the simple example of manufacture given above, and while the cost accounting necessary in order to distribute the just proportion of all the expenditures mentioned over each unit of product is an intricate and difficult matter, the principle laid down in the illustration is not changed. The materials entering into the product, together with the just proportion of overhead, depreciation, and administrative expenses chargeable to that product still constitute the

total capital invested in the product. For the sake of brevity this may be called the capital cost of the product.

The labor factor is also vastly complicated in a large modern industry. Instead of one man turning out the finished product, perhaps several hundred men will each perform a small part of the work as the article passes through the factory from the raw material stage to that of the finished product. Not only so, but some labor will be performed on the raw material in bulk, some on smaller quantities, and some on the individual material going into a single unit of product.

Notwithstanding this great complexity in determining the amount of labor contributed by the individual laborer toward the unit of finished product, and the much greater complexity which arises when the many different degrees of skill, preparatory training, dexterity, etc., are taken into account, still the total labor entering into a finished product may be considered as a unit; and the illustration with which we began will then still hold good. The capital cost plus the total labor applied result in a product having a certain selling price. After the capital cost has been deducted from the selling price, the remainder goes either to labor as a wage or to capital as a dividend; and the same antagonism between wage and dividend remains as

in the manufacture of the chair. If the capital cost and the selling price of the product remain constant, an increase of the pay-roll necessarily reduces the amount available for dividends; and, vice versa, an increase in the dividends necessarily reduces the amount available for wages. This opposition of the interests of labor and capital is perhaps the most important cause of industrial friction under the wage system as it is at present universally applied in industry.

Wages Fixed by Economic Force Not by Economic Justice

In the illustration of the manufacture of the chair there were three dollars to be divided between the capitalist and the laborer. Under our wage system the part that each would receive is determined solely by the relative economic strength of capitalist and laborer. If the laborer is desperately in need, or if he is surrounded by a large number of other laborers competing for the job of manufacturing the chair, the capitalist will take advantage of the economic weakness of the laborer's situation and offer him a smaller share of the three dollars; and the laborer, feeling his helplessness under the circumstances, will be obliged to accept that smaller share. On the other hand, if the laborer is the only man available with the skill necessary to manufac-

ture the chair, or if there are a number of capitalists competing for the laborer's services, he will be in a much stronger position economically and can demand a larger share of the three dollars; and the capitalist, seeing the impossibility of having the chair manufactured, and hence of realizing any profit whatever for himself, without the laborer's services, will feel that his economic power is relatively weaker and will agree to give the worker a larger share of the product. The point at which the division of the three dollars occurs will be determined by a trial of economic strength between capital and labor.

In a large modern industry this trial of strength becomes a much more complex matter. Capital, instead of being represented by a single employer, is represented by thousands of investors closely organized into a great corporation which, by reason of its enormous resources, possesses very great economic power. Labor, in its unorganized state feeling itself helpless in the bargaining or the trial of strength with so vast and closely organized a body of capitalists, in its turn organizes the workers into unions, in order to attain equal economic or bargaining power with the organized capitalists. But labor goes further than capital and joins into one closely organized union not only the workers in a single enterprise, but the workers in the entire in-

dustry of which that enterprise is but a single corporate unit. This swings the balance of economic power strongly in favor of labor; and capital, in order to regain equality of bargaining power with labor, organizes all the capital in the entire industry into an employers' association.

In several countries, notably in Italy, England, France, Germany and Belgium, the organization of the opposite camps has gone even further than this and approaches the organization of the entire capital of the country on the one side and the entire labor of the country on the other. But the original cause of friction remains precisely the same as it was in the beginning, when a single capitalist hired a single laborer to manufacture a single chair. The division of the product is still based on a trial of strength—on force, not on justice. With our present wage system organization simply makes for warfare on a much larger scale.

No attempt is made under our present wage system to give the worker the full social value of his work. No attempt is made to find a formula for the division of the product of industry that would appeal to the sense of justice of both capital and labor and so would remove the necessity for capital and labor, after co-operating to produce values, to keep up an endless fight over the division of the values thus jointly produced. No doubt it would

be an extremely difficult thing to determine the exact part of the value of a finished product above the value of the materials in it that was added by the labor of each one of many hundreds of workers who had part in its manufacture. It should not be an impossible thing, however, to find a formula that would give a fair division of that additional value between the whole amount of capital and the whole amount of labor employed in the manufacture of the product. If such a formula were found, that would appeal to the sense of justice of both capital and labor, it would remove the basic cause of friction between capital and labor due to the present practice of determining the basis of division solely by a trial of economic strength.

The Irresponsibility of the Employer

The laborer in modern industry is usually employed by the week, although in frequent instances he is employed only by the day, and in some cases only by the hour. At the end of any week, day, or even hour the employer is free to set the employee adrift, and he has no legal responsibility whatever for the man's fate. He may have so narrowed the worker's training by putting him to work exclusively upon some one little detail or some one machine that the worker is not fitted for any other work; or he may have taken the worker from a cen-

ter of population, where other work was constantly available, and have transported him to a factory in a location where no other work whatever is available; still the employer is legally free to dismiss the employee at the end of any week, day, or even hour, and he bears no legal responsibility whatever for the fate of the dismissed employee. The employer may bring into a remote locality a sufficient number of workers to meet his peak requirements, a number that would at practically all other times greatly overman his enterprise, and he has no responsibility whatever for the large amount of unemployment and part time employment that he knows will be the inevitable consequence of such action.

This is not a hypothetical case. The entire coal mining industry in the United States is at present estimated by competent engineers to be fully one-third overmanned. As the mines are almost invariably situated at a distance from industrial centers where other employment would be available, this overmanning inevitably condemns the average employee to four months' unemployment in the year.

Precarious Livelihood of Workers

This uncertainty in the tenure of the worker's job, when translated from economic terms into terms of human welfare, means that the livelihood

of the worker is always more or less precarious. His wages, even when steadily employed, are usually little, if any, above the absolute necessities of himself and his family, and unemployment almost immediately reduces him to distress, debt, and actual want. The employer is free under our wage system of employment to cut down his forces or to close his plant entirely during a slack season, in order to preserve the entire profit which he has made during the height of the season, or at most to suffer as slight diminution of those seasonal profits as possible. To the worker this shut-down means not merely the reduction of his meager earnings, but the total loss of his livelihood.

In the case of overmanned industries a large fringe of workers struggles along on the verge of starvation, constantly hoping for "better times," while the employers are fully aware that only under very exceptional and phenomenally prosperous periods could they hope to employ all of the workers that they keep "laid off" at no expense whatever to themselves, but at the expense of semi-starvation to the workers. When there is a general slump in business, the capitalists feel it in the reduction of their profits, but many of the workers feel it, not in a reduction of their income merely, but in the total loss of their livelihood.

Labor is conscious that it is the first to feel a

business depression and the last to recover from it. While organized labor does not seem to have framed any very clear policy to meet this situation, the hardship of it is keenly felt, and this is undoubtedly one of the underlying causes of the friction between labor and capital.

Difficulty of Wage Adjustments

While there are a number of causes that necessitate wage changes in industry, they may, for the purpose of the present brief survey, be grouped into two classes; first, those that cause a change in the selling price of a particular commodity, such as the increase or the decrease of the demand for it, the increase or decrease of the supply, the supplanting of a commodity by a new commodity, its elimination by a new process, changes in style, etc.; second, those that cause a change in the general price level of all commodities; that is, a change in the purchasing power of money; such as the inflation or deflation of the currency, the increase or decrease of the supply of the precious metals, and the expansion or the contraction of credit.

It is natural that when the workers see that their particular commodity is bringing a much higher price than before they should feel that part of the increased selling price and resultant increased profit should come to them in the form of an in-

crease of wages, especially if the capital cost of the product remains unaltered. On the other hand, it is natural that when the capitalists see the price that they can realize on their product and the resultant profit largely reduced, they should feel that the workers should bear a part of the burden in a reduction of wages.

Again, when the workers find that the nominal wages received by them will buy only a half or a third of the necessities of life that they formerly would, it is natural for them to feel that their nominal wages should be doubled or tripled, so as to leave them at least no nearer the line of actual want than before. On the other hand, when the capitalists see that a severe fall of general prices has cut heavily into their profits or even turned them into losses and has doubled or tripled the purchasing power of the workers' wages, they feel that the workers should accept a reduction of wages, so long as it is not more than proportionate to the increase that has taken place in the purchasing power of the wages.

Under the wage system as it is practiced to-day such necessary wage adjustments are made by the method of an autocratic ultimatum followed by the industrial warfare of strike or lockout, or by a sullen and embittered submission of either capital or labor which serves only to deepen the hereditary

antagonism between capital and labor. And if the adjustment is accomplished only after the defeat of either labor or capital at the close of a long and bitter economic war, with its attendant severe privation on the one side and its severe losses on the other, the ingrained bitterness between labor and capital is increased still more.

It is the organized economic warfare by which wage adjustments are at present made that has produced among the workers the conviction that the interests of labor and capital are irreconcilable, and that has resulted in the conceptions of "class consciousness" and "class war."

The amount of industrial friction resulting from the present methods of wage adjustments becomes apparent when the severe losses to both sides in the industrial warfare are considered. To give a single instance, the hard-coal strike of 1925 in America cost a loss of wages for 158,000 workers for 165 days, a total of well over $100,000,000; while the loss of profits to the mine operators was probably about the same amount.

No effort is made in the adjustment of wages by these methods to find a just rule according to which labor and capital should share the product of industry. The procedure is simply a trial of strength, a trial by battle. Even when arbitration is called in to settle the matter, after both sides have become

exhausted and a deadlock has been reached, the arbitrators, like the treaty-makers after a war, determine their rulings more in accordance with the accomplished facts and the relative fighting position of the two combatants than by any general considerations of justice.

Permanent harmony between labor and capital cannot be realized until a method has been found by which the product of industry is divided between labor and capital in accordance with some rule of justice that is acceptable to both and that is flexible enough to be applied in making the necessary wage adjustments. The present rigid wage system by which adjustments can be made only by the methods of industrial warfare and in crude lump percentages that jar the whole economic fabric of society is one of the chief causes of industrial friction.

Friction in Fixing Hours

When an employer pays a laborer a certain fixed amount of money for a day's work, it is natural for the employer to try to get as many hours of work for that day's pay as possible; on the other hand, it is natural for the laborer to try to get the day's pay for as few hours' work as possible. The employer figures that, if the first six hours' work pro-

duces just enough salable value to pay the day's wage, he will make twice the amount of profit on each worker's labor by an eight-hour day that he would by a seven-hour day, and three times the amount on a nine-hour day. Hence his desire for a long day when wages are on a daily basis. On the other hand, the worker feels that as he receives no more at the close of the day in the one case than he does in the other, it is to his interest to insist on as short hours as possible. This opposition of interests is another fundamental source of friction between labor and capital.

It is true that this cause of friction is somewhat reduced when the pay is on a piece-work basis. Piece-work, as a plan to establish industrial harmony, will be discussed in a later chapter. It may be thought also that the friction would be eliminated by an hourly rate of pay. Regarding the hourly basis it need only be said that both the employer and the employee have in mind the amount per day that the hourly rate will produce, when bargaining about that rate; and the controversy between labor and capital turns on the question of how many times the worker should repeat the hourly rate in order to draw what he considers a fair day's pay, or on the question of what hourly rate will produce a fair day's pay within what the worker considers a reasonable day's time. The antagonism of interest

remains the same between employer and employee on a fixed hourly wage as it is on a fixed daily wage.

Friction on Working Conditions

Under the wage system the cost of improved working conditions, such as improved lighting systems, proper ventilation, sanitation, devices for accident prevention, mill hospitals, etc., comes out of the pocket of the capitalist and he naturally favors a minimum of expense for these purposes, while the worker naturally insists upon a maximum of improvements in his working conditions. The resultant friction is another of the fundamental causes of labor troubles.

While the far-sighted employer knows that the maintenance of a proper standard of working conditions in the factory pays for its cost in the larger quantity and the higher quality of the product, and in the increased loyalty and application of the workers, still the average employer is loth to add anything to his cost of production which seems to put him at a disadvantage in competition with other employers.

This source of friction has in a measure been removed by public factory regulations which apply to all employers alike, and so keep them upon an equal basis of competition as far as these working conditions are concerned; but the regulations vary

so widely from city to city, from state to state, and from country to country, that there is always more or less friction between labor and capital regarding the matter. In modern civilized countries standards have been set fairly high by the governments; but in backward countries, or in those where industry is just being established, as in China, conditions are still deplorable.

CHAPTER II

THE OWNERSHIP SYSTEM

The Dominance of Ownership

The capitalist who owns a business must, by the nature of the case, be a man of some wealth; otherwise he could not be the owner of a business. The possession of wealth puts the owner beyond the reach of immediate want, frequently beyond any possible reach of actual want. The owner usually undertakes the conduct of an enterprise more for the purpose of increasing an already substantial amount of wealth or of increasing an income already adequate to meet the bare necessities of life, than for the purpose of obtaining merely these necessities. Especially is this the case with the controlling capitalists in large modern enterprises.

In bargaining with labor, therefore, capital can afford to hold out, while labor, having as a rule no reserves whatever against immediate and actual want, cannot afford to haggle. Labor must there-

fore usually accept the autocratic dominance of capital in the settlement of wages under the present system of making a bargain that is determined by the relative economic strength of the two parties. Capital takes advantage of the necessities of labor to force a wage bargain that gives the lion's share to capital. Capital dictates its terms.

Under the present method of big business carried on by enormous corporations this dominance of capital is greater than ever before. The thousands of investors in a large corporation are legally fused into one and act as a unit through the management elected by them, while the thousands of laborers employed approach as individuals this vast concentrated economic power in making a wage bargain. What chance, for instance, has a laborer on the verge of want in bargaining with the United States Steel Corporation? He at once feels that he must take or leave the terms laid down by the Corporation. The Company autocratically dictates the wage, and the worker, with starvation staring him in the face, accepts the dictated terms.

While the organization of labor in some measure frees the laborer from this abject subjection to the autocratic dominance of the capitalist, still when capital becomes organized in an equal degree with labor the same fundamental reason for the dominance of capital reappears. Organized capital can

usually hold out longer than organized labor can. Labor keenly feels this inevitable inequality of bargaining power in dealing with capital under the present system of the concentration of the power of the ownership in large corporations, and this is another of the fundamental causes of industrial friction.

The Concentration of Wealth

The natural consequence of the dominance of capital over labor under our present wage system is the concentration of the wealth of the country in comparatively few hands, while the masses of the population live from generation to generation very close to the line of actual want. Under our system of ownership, after the capital employed in an enterprise has received a fair or even a liberal dividend, the remaining profits are put into a surplus account which belongs exclusively to the capitalists. These surplus earnings are distributed solely to the capitalists, frequently in the form of stock dividends; and the workers are expected to be content with wages which will afford the capitalists liberal returns upon these surplus earnings resulting from able management and efficient labor. Thus the liberal earnings made possible by the loyal and efficient efforts of the brain workers and the brawn workers go exclusively to the investors, who fre-

quently never give the enterprise an hour's thought or the slightest service. Their capital is by these methods doubled, trebled, sometimes multiplied tenfold or a hundredfold, thus concentrating the wealth produced by a large body of hard-working brain workers and brawn workers in the hands of rich non-workers, while the body of workers, no matter how highly successful may be the enterprise in which they spend their whole lives, remain always with a wage that barely enables them to make both ends meet.

Under the present ownership system even more than this is permissible by law and is frequently practiced. When an enterprise is earning a substantial amount above a fair return upon the capital invested, not only do the owners decline to share these surplus earnings with the brain and the brawn workers who have made them possible, but they frequently do not even wait until the surplus earnings have been realized before they capitalize them through the devious methods of so-called "high finance." If a large company earns 50% per annum on its investment, its directors, knowing that if a 50% dividend were declared there would be public indignation either at the exorbitant prices charged for its product or at the underpayment of its workers, simply write into the assets a large item of so-called "good will," and then proceed to

issue a stock dividend which multiplies the previous issue tenfold; and the public and the workers are hood-winked by the modest dividend rate of 5% which the corporation pays upon its new watered stock.

One of the newest and most highly favored devices of high finance is the issue of stock without par value, which can readily be multiplied to any extent necessary to make the dividend rate so small as to escape the public eye. All these methods result in the concentration of wealth in a country, instead of its wide distribution among the whole body of its citizens.

Economists are not wanting, especially among those employed by the wealthy, who, while admitting all this, seek to justify the concentration of wealth on the ground that it results in the greatest wealth of nations. They argue that the slight increase that could possibly be given to each worker by a distribution in the form of increased wages of the surplus earnings of industry would be wholly dissipated by the workers, while its concentration in the hands of the wealthy results in its being reinvested and thus increases the permanent income-producing wealth of the country. The wealthy, it is said, receive no benefit from these large additional dividends, since they already have incomes large enough to give them every luxury, and they there-

fore act merely as trustees of society in re-investing the capital for the benefit of the whole country. And, of course, the returns from this re-invested wealth are again religiously invested for the good of the country by the self-appointed trustees of the nation's wealth, and so ad infinitum.

The wealth of the nation thus becomes colossal —and the welfare of the mass of its citizens becomes nil. It is a fine theory for those who are acting as the nation's trustees and are to be kept so fully supplied as to their possible wants, wishes, whims and follies that they simply can't spend their incomes and must re-invest them.

But it doesn't appeal to labor. In the first place, it is a slander of the hard-working laborer to say that, no matter how much he gets, he will waste all that is above a bare substance. The truth is that the worker is far more careful of any money that he is able to earn above his absolute wants than is the rich man, and he is just as eager to invest his savings profitably. The vast increase in the number of small investors in the United States in recent years is ample proof that if the worker is given half a chance he will use his surplus capital in industry just as well as the idle rich man. And a nation of small investors is a far happier nation than a nation in which the wealth is owned by a handful of men and abject poverty is the lot of the rest of the peo-

ple. The issue is between the wealth of nations and the welfare of nations.

Labor feels that the ownership system, under which all surplus earnings of industry go to the capitalists who frequently do not give the slightest actual time or attention to the business, while the management and the workers devote their whole lives to making the business a success, is inherently unjust to labor. While the leaders of labor do not seem as yet to have any feasible method of correcting this injustice, it is constantly felt by them and is one of the underlying causes of the friction between labor and capital.

Excessive Losses

There is another side to this story. The ownership system as at present practiced not only concentrates the excess profits of industry into comparatively few hands, but it also causes excessive losses to the owners during unprofitable seasons. It is natural that the workers, finding that their wages do not increase when the business is unusually profitable, refuse to bear any part of the burden of unprofitable business by a reduction of their wages. The large inflexible pay-roll charge of a great modern industry very quickly eats up the entire capital of the owners and frequently puts a business into bankruptcy before there is a turn for the better in

the general business conditions, or in the conditions surrounding a particular industry.

The capitalist claims that he must be permitted to retain the excess earnings of good years in a surplus account, in order to enable him to meet the losses of bad years; and that, since the workers either will not or can not bear any part of the losses of industry, they are not entitled to any of the profits of industry. He says that labor insists upon "a fair day's pay for a fair day's work" and refuses to assume any responsibility whatever for the ups and downs of business. While this is unassailable logic under our present rigid system of wages and ownership, it frequently results in a double source of friction between labor and capital. When business is booming and profits are high, labor feels that it is not getting its fair share; and when business is depressed and profits are turned into heavy losses, capital feels that labor is unfair in refusing to shoulder a part of the load through reduced wages until profitable operations are again possible.

The Inheritance System

Perhaps there is no greater cause of "class consciousness" and "class war" than the system of inheritance prevalent in practically all industrial countries. While its worst feature, primogeniture, is gradually passing away with the rise of the spirit

of democracy, still the privilege of passing great wealth from the man who earned it to an offspring who never did a stroke of work, thus giving the latter the right to ride through life on the backs of the workers without contributing anything to society by his own efforts, is a feature of the ownership system that causes deep discontent among the workers. They see on every hand the luxurious display of the idle rich, and they know that it is through the toil of the workers that all these luxuries are produced. They rightly regard as mere parasites on society those who are wealthy solely by inheritance and who have done nothing for society to give them a just title to a life of luxurious ease.

The workers cannot but feel the inequalities of economic opportunity between the man who starts life with a million and the man who starts from the scratch. They feel that the one is unjustly privileged or the other unjustly handicapped, or both. Most enlightened governments make some attempt to reduce this inequality of economic opportunity among their citizens by the levy of an inheritance tax heavily graduated with the increasing size of the estate. This is a partial recognition by society of the economic injustice of the system of ownership that permits some members of society to enjoy the results of the labors of others without having rendered any equivalent whatever to society.

Excessive Political Weight of Wealth

While there may be doubt as to the justice of the conviction, there is a widespread conviction in the minds of the workers that governments are largely controlled by the wealthy, and that therefore labor cannot expect a square deal through an appeal to the ballot-box, but must enforce its just demands by its own economic power, through the organization of the workers and by means of strikes. This conviction is the cause of serious friction and bitterness between labor and capital not only, but also to some extent between labor and the public authorities.

There is some ground for this feeling on the part of labor. The modern system of elective government, with its political parties that require a very considerable amount of funds for party work and election campaigns, necessarily causes the party leaders to look with special favor upon those who contribute the necessary money, and when the party is successful its leaders very naturally consult the wishes of the chief campaign contributors in making appointments. In this way the wealthy in large measure control the nominations for the higher offices and the appointments for the lower ones. And just as naturally the office holders, consciously or unconsciously, favor the interests of those to whom they owe their positions. As a consequence

legislation is likely to be framed with more regard to the interests of capital than to the interests of labor. While this may be a somewhat overdrawn picture, it represents a widespread feeling among the workers, and it is undoubtedly one of the underlying causes of the friction between labor and capital.

CHAPTER III

THE MANAGEMENT SYSTEM

The Separation of Management From Capital

Industrialism has evolved through three distinct stages. In its first and simplest stage the journeyman supplied the labor, the skill, and the tools and materials, and he turned out the finished product without any other assistance. In the second stage one group of laborers furnished the manual labor, and another group furnished the tools and materials and directed the enterprise by which the finished product was produced and sold, and the raw materials and tools were replenished as needed. At the present time industry has reached, or is beginning to reach, the stage in which one group furnishes the labor, a second group furnishes the capital, and a third group furnishes the management of the enterprise.

This third stage has not yet been fully reached. In very many industries capital and management are in a greater or less degree in the hands of the

same person or persons. As industries grow larger, however, the tendency is more and more toward a separation of the functions of ownership and management. In the great railroad systems, the leading banks and the largest industries it is becoming more and more necessary to pick the executive management solely on the basis of high ability, wholly irrespective of the size of the financial interest of the managers in the business.

While the original founders of great industries had the brains to run them, their sons and grandsons frequently have neither the ability nor the inclination to shoulder the heavy and exacting burdens of active management. The owners of these large enterprises, therefore, entrust the management to the trained and professional railroad man, the practical banker and the experienced industrial manager, although these active executives may hold only a very small percentage of the company's capital stock.

Not only is it an ever increasing practice to invest capital without services, but it must also be noted that modern industry is operated to a large extent on borrowed money represented by bond issues. In other words, the active management of the enterprise hires the capital, just as it hires the labor, to operate the business.

Even in the matter of the capital stock of a com-

pany the tendency is for the active management to place such capital in the position of hired capital which has no voice in the management. Frequently preferred stock is issued with a fixed rate of dividend, but with no voting power unless default is made for a certain period in the payment of dividends. Such capital is simply hired capital in almost the same position as that raised by a bond issue, except that in consideration of its permanent investment it carries a higher rate of return and a proviso giving it voting power in case of default in the payment of dividends. But while the dividends are paid such ownership is totally distinct from management.

Furthermore, there is on foot a tendency, which has been somewhat criticised lately, to place the bulk of investments even in the common stock of a company in the position of hired capital without voice in the management. This is being done by issuing the bulk of the common stock in one class without voting power, while a very small percentage, called management stock, which alone carries voting power, is held by the active management. This practice merely carries the separation of ownership from management one step further, and in practice it is not subject to criticism any more than the issue of non-voting preferred stock or of bond issues which are without vote. The consideration

of a possibly higher yield is the motive that attracts capital to non-voting common stocks, just as the higher yield on preferred stocks as compared with bond issues is the motive that attracts capital to them.

The object in outlining these trends in present-day methods of financing industry is simply to emphasize the tendency toward the complete separation of capital from management. The three essential elements in modern industry are labor, management and capital—brawn work, brain work and stored-up-work—and the course of the evolution of large industries is toward placing each of these factors in the hands of an entirely distinct group.

Management Subservient to Capital

The separation of management from capital results in several deep-seated causes of friction between labor and capital. The first of these is that, as management is employed by the capitalists, paid by the capitalists, and is constantly subject to discharge by the capitalists, management is naturally subservient to capital and partial to capital in any negotiations between labor and capital. This partiality is the cause of the widespread and fundamental distrust that exists between labor and the executive management of industry. Labor feels that management is not in a position to hold the

scales of justice evenly between the rightful claims of labor and the rightful claims of capital, but that in every controversy management is bound to take the side of capital just as surely as a lawyer will take the side of the client who retains him, even if he knows that justice is on the opposite side.

This partiality of management toward capital remains even in cases where a large part of the capital employed is in the form of money borrowed on bond issues and in cases where a large part of the capital stock is in the form of non-voting preferred or common stock. The actual voting stock is usually held, not by the active executive officers of an industry, but principally by the board of directors or by a group of banking interests who are only very remotely active in the management of the company.

In dealing with management, therefore, labor constantly feels that it is dealing, not with an impartial umpire between capital and labor, but with the attorney for capital who is bound to favor capital in any negotiation or controversy that may arise.

No Human Fellowship Between Capitalists and Workers

The separation of management from capital on the one hand and from unskilled labor on the other has interposed a great barrier between the lives of

the capitalist and the worker. To perceive this clearly one need only think of the thousands of stockholders of our large corporations scattered throughout the country and of the other thousands of workers employed in the plants of these corporations. It has been well said that one-half of the world does not know how the other half lives. Shall we add, that it doesn't care? The rich do not know how the poor live. Shall we say that they do not want to know?

To the capitalists interested in large industries the workers in these industries are totally unknown. Even to the management the vast majority of the workers are known only as units or numbers on the pay-roll. Contrast this situation with the methods of a century ago, when master and man worked side by side at the same bench, dealt with each other as man with man, friend with friend, knew each other's joys and sorrows, were democratically and socially equals. It is of course obvious that this close human fellowship is impossible of attainment with the present vast size of our industries, but its absence makes for misunderstanding and friction between labor and capital. Especially is this so with the interposition of a distinct management group between the two, so that labor deals with capital only through management and capital deals with labor only through management.

Management Tends to Oppression of Labor

The natural subserviency of management to capital has been noted above. Its inevitable result is a cold-blooded, economic, and inhumanly oppressive attitude toward labor. When the executive management of a great industry submits the operating sheet to a widely scattered body of investors, or to a board of directors the majority of whom are purely financiers living in the great metropolitan cities, the officers know that labor costs will be regarded precisely as any other costs entering into the manufacture of the product. They know that they are expected to procure the necessary labor on precisely the same terms that they procure the raw materials, that they must obtain both at the lowest possible price, and that they must purchase only the minimum amount of either that is necessary to produce the finished product. Management is thus forced to regard labor as a commodity of commerce, precisely like lumber or steel. Labor is bought at the lowest market price and on the terms most favorable to the capitalists. Labor is dismissed the moment it can be dispensed with, with no more compunction than is felt when the purchase of raw material is discontinued. Labor is overworked in time of unusual business activity or of scarcity of labor without the slightest qualms on the part of management, unless the overtime labor

is more expensive. Labor is worked through the night hours as though night work made no more difference to the workers' health and welfare than the effect of night running on a machine.

The basic policy of management under the present management system must be to turn the largest possible part of the selling price of the product into the capitalists' dividends, and therefore to allow the smallest possible part to go into the workers' pay envelopes. Any executive management that should adopt as its basic policy, to give the largest possible reward to the workers that is consistent with a fair return to the invested capital, would soon find itself voted out of office under our present system of ownership and management.

The executive management that should adopt the policy of keeping the workers fully and steadily employed, even at some sacrifice of the possible maximum profits that could be realized by a ruthless policy of lay-off or discharge, would soon find itself in disfavor with the board of directors; and unless the sacrifice were considered advisable in order to prevent permanent loss of workers in a labor scarcity, there would in most large industries soon be a change in the management.

In all of its dealings with the executive management of great industries labor constantly feels this bias and partiality of management toward capital,

and as labor usually cannot deal with capital in any other way than through management, this is one more of the fundamental causes of industrial friction.

PART II

ATTEMPTS TO ESTABLISH INDUSTRIAL HARMONY

CHAPTER IV

EMPLOYERS' METHODS

After a brief survey of the principal causes of industrial friction, the second part of this book will discuss the principal methods by which the removal of these causes has been attempted. These methods fall into two classes, employers' methods and workers' methods. The methods by which employers have sought to establish industrial peace may be grouped under (1) modifications of the wage system, (2) modifications of the ownership system, and (3) modifications of the management system.

In the first group the principal methods are piece work wages, sliding-scale wages, bonus systems and profit-sharing systems. In the second, the principal methods may be summed up as stock ownership plans. In the third, the principal methods are shop representation and welfare projects.

Piece Work

In large modern industries the laborer's work is almost invariably confined to one small part of the

processes of manufacturing the finished product, as the employer rightly thinks that the worker thus becomes very adept at that particular detail of the work as the others do at their particular little task, and that thus a far greater amount of product is manufactured than would be the case if each worker followed the article upon which he worked through all the processes from raw material to finished product. Having thus minutely subdivided the work of manufacture and simplified each worker's task, the employer is next concerned that each worker shall repeat his particular operation as often as possible during the day, so as to obtain the largest possible production from the operation of the plant. This is frequently accomplished by a method of payment by results, rather than by the payment of a fixed daily wage. The worker is paid so much per piece of work completed by him, and this modification of the wage system is termed piece work.

The employer favors this method of payment, because he can know exactly what quantity of finished product a given expenditure for labor costs will produce, and he can thus figure the total cost of his product with greater accuracy. Furthermore, he feels that the incentive given to the worker of greater pay for greater product will induce the worker to put forth his best efforts and to turn out a considerably larger product per day than he

would on a straight time basis of payment irrespective of the amount of work performed.

Moreover, the employer feels that piece-work payment is not only to his own advantage, but that it is also to the advantage of the worker, who is rewarded precisely in proportion to the work he does, the skill he displays, and the dexterity which experience gives him. The employer feels that this is a just method of payment, since it is exactly proportionate to the various degrees of skill, dexterity and industry of each worker. In short, he feels that by the piece-work system the worker gets what he actually earns.

Labor, however, takes a very different view of piece-work payment. In the first place, it is pointed out that the piece rates are usually determined exclusively by the employer. While it is true, therefore, that if one worker is faster than another and turns out twice the amount of product he ought to have twice the amount of pay, how does it follow from this that either the slower or the faster man is receiving a just wage for his work? All that piece work assures, when the rates are made by the employer, is that the *relative* pay of the workers is fair; that is, provided it is admitted that the slower man is properly rewarded by a daily return of four dollars, then the faster man is justly entitled to eight dollars. But the piece-work method gives no

assurance whatever that four dollars *is* the proper wage for the slower man.

As a matter of actual practice employers generally frame the scale of piece rates by counting the number of times that the fastest workers can perform each operation in the working day, and then dividing a fair day's pay by that number of operations, in order to obtain the rate per piece or operation. The result is, that the swiftest workers can make a fair day's wage, and the rest must either drive beyond their strength or fall far short of a fair daily wage.

Unfortunately, the worker's cost of living runs by the day, not by the piece. It is small consolation to him to know that when he turns out the same number of units as the day's output of the swiftest worker, say in two days' time, he will receive enough pay to support him for one day. He must either drive beyond his strength until he breaks down, in order to make enough pay for the day's livelihood in that one day, or he must reduce his standard of living to a level that undermines his health and means slow starvation. Labor therefore claims that the piece-work system leads to overwork, or to "sweating," as it is known in labor circles.

Under the guise of paying justly, in accordance with the results that the worker achieves, labor claims that the piece-work system is simply a de-

vice for setting an extremely high standard of output for the worker, if he would earn a living wage. If it is found after a trial that any of the piece rates as set yields an unusually high rate of pay to the workers, it is almost invariably the employers' practice to reduce such piece rates, so that the greatest industry and application will yield only a moderate day's pay to the workers.

Furthermore, labor claims that piece rates have no definite or constant relation to the price or the profit realized from the finished article, and that therefore they are not even an attempt to give to labor its just share of what it produces. And as to the relative piece rates paid on the many hundreds of operations necessary in a great modern industry before the finished product leaves the factory, it is altogether impossible to determine with any degree of accuracy or justice the relative value of each of these many operations of manufacture.

What the employer actually does, is to find the lowest going daily wage for workers in each process, and then to proceed to reduce this competitive daily wage to a piece-rate basis in the manner outlined above. Piece work is, therefore, in the view of labor, not a modification of the wage system toward greater justice to the workers as a whole, but only a modification of the system made to enable the employer to figure his costs more accur-

ately and in order to drive his labor to the utmost limits of endurance.

The Sliding Scale

The second modification of the wage system by which employers have sought to establish industrial harmony is the sliding-scale of wages. By a sliding scale is meant a wage which is automatically raised or lowered when the selling price of the product rises or falls. The principal objection to this device is, that it can be applied only to the production of a few basic commodities, especially to mineral products such as copper, lead or coal. In these extractive industries a relatively large part of the cost of the finished product is the labor cost, and the part that is chargeable to capital cost, such as depreciation of shafting and mining machinery, royalties, smelting charges, etc., is much less subject to fluctuations than is the case with the raw material of other lines of manufacture. The product, too, is one single commodity, in universal demand, not perishable, not subject to the whims of fashion. In view of the comparative constancy of the other elements entering into the cost of the product, it approaches the truth to say that the fluctuations in the selling price of the product exactly measure the increase or the decrease of the receipts over capital

costs; and the employers' idea in establishing a sliding scale of wages is that by dividing this surplus above capital costs in some fixed manner between dividends and wages permanent industrial harmony may be established.

Labor raises the same objections to the sliding scale (in industries where it is applicable) that it brings against the piece-work system; namely, that the basic rates of pay are fixed arbitrarily and exclusively by the employer, and that there is no assurance that they are fixed on a fair and just basis. Furthermore, the fractions by which wages rise or fall with the increase or decrease of the selling price of the product are also fixed by the employer and there is no assurance that these changes are in accordance with fairness or justice.

The principal difficulty with the sliding scale of wages, however, is, as stated above, that it cannot be applied to the great bulk of industries. In all industries in which the cost of the raw material constitutes a considerable part of the value of the finished product an increase or a decrease of the selling price of the product may be due entirely to a corresponding increase or decrease in the cost of raw materials and there would therefore be no greater or less excess of receipts over capital costs with the one price than with the other. In this situation changes in wages in accordance with the selling prices would

have no reasonable basis and might easily result in wrecking the business.

Again, in most industries the product does not consist of a single, homogeneous commodity like copper or lead, but of a great many different commodities. Nor is the demand for the product universal and comparatively uniform, but frequently it is local, seasonal or subject to changing fashions. In many industries the product is perishable and must be marketed speedily, thus causing rapid and excessive fluctuations in the selling price. All of these factors so greatly complicate the problem that the application of a sliding scale of wages to the workers in these industries is not feasible.

Bonus Systems

Other employers have seen more or less clearly that the return to the workers should bear some relation to the prosperity of the industry in which they labor, and they have attempted to establish industrial harmony by giving the workers at the end of the year a bonus in addition to their regular wages, when the profitable outcome of the year's business warrants such a distribution. This practice, without doubt, has a very considerable effect in removing industrial friction, and it is a real step toward the solution of the problem of establishing harmony between labor and capital.

The principle upon which the bonus system is based is correct, but to the manner in which it is applied in actual practice there are several objections on the part of labor. In the first place, the total amount distributed by the employer as a bonus is arbitrarily fixed exclusively by the employer. It bears no definite relation to the amount of the year's profits, and in point of fact it is usually only a small part of the excess of the year's profits above a fair dividend on the capital employed in the business. Again, the part of this total bonus that is given to each worker is also usually arbitrarily determined exclusively by the employer, although there are instances in which the employers announce a straight percentage of each man's annual wage as the year's bonus. When the latter method of distribution is adopted another step toward industrial peace is taken, because labor is quick to see that an honest attempt is being made to distribute these extra payments fairly, in accordance with each man's value to the business as measured by his wage or salary.

The principal objection of labor to the bonus system, however, is that, since the total amount of the distribution is fixed by and is purely voluntary on the part of the employer, since there is no obligation on his part to make any distribution whatever, and since the amount to be distributed as a bonus is not

clearly understood beforehand to be a certain fixed percentage of the profits or to bear any fixed relation to these profits, the whole bonus system is regarded by labor more or less as a display of charity by the employer. Labor wants its reward as a matter of right and justice, and not as an act of charity. The workers therefore generally much prefer a somewhat smaller definite and agreed wage than a little larger possible reward in the shape of a bonus that cannot be rightly claimed and that is received more or less as the result of an act of charity on the part of the employer.

Profit Sharing

Employers who understand these objections of labor to the bonus system have tried to overcome them by changing the bonus payment into a definite plan of profit-sharing with the workers. This is a further step in the direction of permanent harmony between labor and capital. In fact, if the profits of an industry are shared between capital and labor on a basis that appeals to both as fair and equable, a basis that gives fair consideration to the situation of each, such profit-sharing might remove all the principal causes of friction that now exist between labor and capital.

As profit-sharing is actually practiced, however, it is only *part* of the *excess profits* over and above

a good dividend that is shared with labor. The percentage of the profits (after a fair dividend has been paid) that is given to labor and the percentage that is retained by capital are determined arbitrarily and exclusively by the capitalists. Usually only a very moderate part of these *excess* profits is given to labor. This arbitrary control of the whole distribution by the capitalists exclusively raises the same objection on the part of labor that is brought against the bonus payment,—that it is entirely an act of grace or charity on the part of the employer and cannot be claimed on any definite basis as a right by the worker.

In some cases, after a liberal dividend has already been paid upon capital, 25% of the remainder of the profits goes to labor while 75% goes toward an additional dividend to the capitalists. The most generous basis of profit-sharing which has come to the writer's knowledge is one in which, after capital had received a dividend of 10%, the remainder of the profits were shared equally between labor and capital. This scheme produced harmony between labor and capital in the enterprise for a number of years, until in a time of unusually good business the capitalists refused to abide by their arrangement for a preferred 10% dividend and insisted upon 15% before any profit-sharing should begin. Labor rebelled at this and the arrangement died.

The experiment referred to is that of the Whitworth Collieries in England.

Labor has several other objections to profit-sharing. The capital structure of an enterprise being exclusively in the control of the capitalists, if an enterprise shows a very large percentage of annual earnings, the capitalists will very likely capitalize these earnings at a 4% or 5% rate by an issue of additional stock against plant, patents, good will and other "cats and dogs." The profit-sharing will then begin only after a liberal dividend has first been earned by the workers upon this watered stock.

If profit-sharing is to be effective in producing industrial harmony, there must be definite assurance to labor that the capitalization which claims a preferred dividend before the workers begin to share profits arises solely out of actual cash invested in the business, and not out of the capitalization of present or prospective profits.

Labor, and particularly organized labor, further objects to profit-sharing as a bait given to labor in order to induce the workers to be content with starvation wages, in the vague hope that they will realize a substantial additional sum through the sharing of profits. Labor claims that it is entitled to an adequate living wage *before any dividend* is paid to capital, not after a liberal dividend has first been paid to capital. In other words, organized

labor objects that, whereas a living wage is rightly the first charge upon industry before any dividend can rightly be claimed by capital, profit-sharing is a scheme to hold wages below a fair living standard and to put a liberal dividend to capital ahead of the payment of a possible additional amount to complete the worker's living wage, if the profits are large enough for the purpose. Profit-sharing, in this view, is simply a scheme to give dividends a partial preference over a living wage.

Stock Ownership

The four methods discussed thus far in this chapter by which capital has attempted to establish industrial peace are all based on modifications of the wage system. The plans for stock ownership, on the other hand, as suggested by capital, are based on a modification of the ownership system. Employers of labor, especially in cases where the number of employees is very large, feel that if the workers hold stock in the company in which they are employed, they will naturally be interested in promoting the profits of the business, in order to assure and to increase the dividends on the stock which they hold, and that the workers will be less contentious on the question of wages, if they obtain a part of the profits of the company in the form of dividends as well as the part of the gross receipts which

they receive as wages. They feel that the workers will reason that the money goes to labor in the end, whether in the form of wages or in the form of dividends.

It would, if labor owned all of the stock in a company. In that event the friction beween labor and capital would be entirely removed, because labor and capital would be represented by the same persons, and it would be wholly immaterial to them as a body whether the excess of the selling price of their products over the capital costs went into their right pockets as wages or into their left pockets as dividends.

But the generosity of capital in its plans for employee stock ownership seldom goes to the extent of planning to encourage the workers to acquire ownership of the entire capital stock. As a matter of fact, capital is almost always careful in all of these plans to provide that only a small minority of the stock of the company shall pass into the hands of labor. Usually the concern of the capitalists contents itself with the acquisition by the workers of only a very minute fraction of the company's stock. For instance, in the United States Rubber Company 146,000 shares, or only about 10% of the capital, is being acquired through instalment payments by the officers and other employees of the company. In the American Sugar Refining Com-

pany the workers are acquiring about $1,600,000 out of a capital of $90,000,000. In the Studebaker Corporation, about $1,300,000 (according to the 1921 report) out of a capital of $83,000,000, etc.

Carried out in this way, employee stock ownership gives the workers only a very small additional income in the shape of dividends and no effective voice in the management of the company. Labor leaders are therefore very cool to such plans. They rightly consider them merely as schemes by which the workers may be lulled into a sense of contentment with inadequate wages, in the hope that dividends received later will make up the wage shortage. In a later chapter the subject of stock ownership will be further discussed on a different basis.

Shop Representation

In addition to attempts to establish industrial peace through modifications of the wage system or modifications of the ownership system, capital has also used several plans for maintaining harmony that involve modifications of the management system. The most important of these are plans for regular conferences between representatives of the workers and representatives of the capitalists, under the name of shop representation, company unions, or industrial democracy.

The basic idea in these conferences or assemblies

is that the frank and full discussion of all differences and problems in the relations between employee and employer will bring mutual understanding of the position of each and so remove causes of friction. After an open discussion of a question at issue the representatives of labor and those of capital are supposed to arrive at a decision by an untrammeled majority vote, in full accordance with the best practice of democratic or republican government. Wherever these schemes of employee representation are conducted with a reasonable degree of sincerity of purpose on both sides, there is no doubt that they have a very considerable effect in reducing the number of differences between labor and capital and in minimizing the gravity of those frictions which are not entirely removed.

Labor, however, finds several fundamental objections to the whole system of shop representation, which the labor leaders with some justice characterize as "hand-picked unions." In the first place, it is the customary method to have an equal number of representatives of labor and of capital, with the result that it is impossible for labor to poll a majority vote on any question which the management representatives are instructed to oppose. In addition to this there is very often a veto power on the acts of the so-called "legislature" placed in the hands of the chief executive of the company, which

makes it practically impossible for labor to carry a measure that is objectionable to the chief representative of capital, even if the laborers should be successful in winning the votes of capital's representatives in the joint meeting.

Furthermore, the jurisdiction of such representative assemblies is usually limited to trivial matters, such as the arrangement or the distribution of work, placing or improving machinery, repairs or alterations of factory buildings, lighting, ventilation, aisle spacing, etc. Should the workers' representatives have the temerity to broach questions of increased wages or shortened hours of labor, they are very quickly given to understand that these matters are none of their business. If they persist, the result is usually a solid vote of the representatives of capital against them or a veto by the chief executive.

The most serious as well as the most damaging charge, however, that labor brings against the system of shop representation is that it is a scheme of capital to keep the men from forming a real, effective union covering the entire industry, thus putting labor on an independent and equal footing with capital in bargaining about wages, hours, etc. The labor leader conceives that the equality in bargaining power between labor and capital in a company union is about the same as it would be between two

men sitting opposite each other, the first under an axe held up by a cord running to the hand of the second. Theoretically two such men might have equal power to propose and insist upon their respective arguments and demands; but, as a matter of fact, when number two began to twitch the finger holding the axe-cord, number one would be very likely to yield the point in dispute. If he didn't, he'd get the axe,—discharge.

Welfare Work

The remaining plans of capital for the reduction of industrial friction through modifications of the management system may be grouped under the head of welfare work. This includes all efforts on the part of capital to win the good will of labor through attempts to promote the welfare of the workers by providing free social meeting places, entertainment and instruction, free athletic fields and sport apparatus, free medical attendance and hospital service, free sick benefits and death payments, reduced rates for group insurance, cost price restaurants and company stores, wholesale cost-price housing, etc. There is no doubt that intelligent welfare work is in a measure effective in preventing industrial friction and in promoting good will and harmony between employees and employers. If the projects that the employers initiate are

really of substantial benefit to the workers, the latter cannot fail to perceive that their employers are displaying at last a moderate degree of interest in their welfare, and even though they may feel that the employers are actuated largely by the selfish motive of preserving the health and efficiency of their workers, still they must perceive that in these matters, at least, the interests of capital and labor are identical. The health and physical vigor of the laborer are at least as important to himself as they are to his employer.

The criticisms of welfare work that are made by organized labor are two. In the first place, it is contended that the employer's object is to induce the workers to be contented with an inadequate wage by eking out their normal rent, food bills, etc., through an act of charity. Labor contends that if the employers pay the workers an adequate wage, the latter would much rather secure their own quarters and their food supply in the open market at going prices and without any interference or dictation from their employers. Labor's contention is that most schemes of housing and company stores are different only in degree, but not in nature, from the peonage of the tropics, where the peon is so continuously and deeply indebted to his master for food and other necessities advanced to him that he is virtually the slave of his master. The

same subjection occurs in a milder degree when the workers are in debt to the company store or for rent of the company houses.

The second criticism that organized labor directs against employers' welfare projects is, that they are paternalistic and tend to destroy the manliness, self-reliance and independence of the workers. Labor claims that, if it is paid an adequate wage, the workers will take care of their own amusements and instruction in their own way, will provide their own medical treatment and insurance policies, and will build or rent their own houses where and as they see fit. Organized labor resents the whole idea that labor is in any way the serf of capital, or under the tutelage of capital. What labor wants from capital is not charity, but justice. Labor wants an independent wage, in order that the workers may be able to live free and independent lives, without being in any way tied to the apron-strings of their employers.

CHAPTER V

WORKERS' METHODS

The methods by which labor seeks to establish industrial peace, like those of capital, may be grouped under modifications of the wage system, modifications of the ownership system and modifications of the management system. It must be said, however, that some of the workers' methods aim rather at peace through the domination of labor over capital than at peace by harmonious agreement between labor and capital. The principal methods by which the workers seek to modify the wage system are the minimum wage, trade unionism and the class war; the principal methods by which they seek modification of the ownership system are collectivism (either in the form of socialism or of communism) and nationalization or state ownership; and the principal methods involving modification of the management system are the establishment of an industrial branch of government and various forms of social insurance, such as

accident insurance, unemployment insurance and pensions.

In addition to these plans of labor there is still another plan involving modification of both the ownership and the management systems. This is the establishment of co-operative enterprises in which the workers supply both the capital and the management.

The Minimum Wage

In advocating a minimum wage labor feels that this would at least be a foundation upon which some kind of wage system could be worked out that would be fair and just to both capital and labor, and that would adjust itself more or less automatically as changes should occur in the cost of living, without the need of strikes or lockouts to make these necessary adjustments. For this reason labor feels that a legally established minimum wage would be a step toward permanent industrial peace. Of course it is labor's idea that the minimum wage would be the very lowest wage to be paid to the most unskilled worker, and that the various degrees of skill and training required for higher grade work would be ranked certain fixed percentages above the minimum, so that any change in the minimum would automatically change the whole scale of wages.

For many years the writer was firmly convinced that here was one of the master keys to the solution of the labor problem; but, after careful attempts to apply the principle to the conditions actually existing in the industrial world, he has reluctantly come to the conclusion that the principle of a minimum wage is of little practical value.

The practical application of a minimum wage bristles with difficulties. There are four different methods in which the application may be attempted: 1, a minimum that will support only a single individual; 2, a minimum that will support an average family of five; 3, an individual minimum with an additional allowance for each dependant of the worker up to a total of five; 4, a minimum for the average family of five with a deduction for each person under that number dependant upon the worker.

The objection to method number one is, that a married man would starve on the individual subsistence wage, and that therefore its legal enactment as a minimum would tend to make marriage more difficult, to undermine the home, and to increase immorality. The objection to method number two is, that unless it were applied throughout the world simultaneously, there would be very few industries that could pay such a minimum wage and still compete in the world markets or even in

many instances in the home markets, so that the result would be a very large and constant amount of unemployment; in other words, high wages and no work. The objection to method number three and method number four is, that they would discriminate against the man of family; employers would first employ all the single workers available before paying the higher rates demanded by the minimum rule for family men, and the latter would be the first to be dropped whenever business should slacken. This again would seriously discourage marriage and undermine the home, which is the foundation of the nation's life.

Again, in countries where the legal minimum wage has been tried it has been found necessary to make exceptions in the cases of subnormal or handicapped workers, such as cripples, old people, workers with impaired faculties, etc. It is an impossible task for government to determine when exceptions should be made, how much under the minimum such subnormal workers should be permitted to accept, and who should decide upon the degree of the worker's handicap. If the employers are permitted to do it, the minimum wage principle is at once abandoned; and if the employers are not permitted to do it, they will not employ those who in their opinion are not worth the minimum wage or more, which will condemn all those who cannot earn the

minimum wage to permanent unemployment and dependence. There are, of course, many degrees of impairment of powers from the slightest to total disability, and unless the handicapped are allowed to accept half a loaf, they will have no loaf. In the end, if industry is to continue, the worker must produce the value that he receives as wages, and if he is able to produce only a very small amount of value, he cannot be employed at more than a very small wage, unless he is given part of the fruit of another man's labor. This would not be a minimum wage, but a supplement by means of charity of the worker's earning power.

Trade Unionism

The principal object that labor has in view in organizing unions is, to give the workers equality in bargaining power with the capitalists, who in modern industries are almost always strongly organized in the form of large corporations whose stockholders are legally fused into a single unit in their relations with labor. The workers feel their helplessness in bargaining on wages, hours, etc., as separate individuals with a vast, powerful and absolutely united body of capitalists. They therefore feel it necessary to meet organization with organization and to present a body of organized labor acting as a unit and bargaining collectively with organized

capital acting as a unit. In this manner they feel that they will have equal bargaining power with their opponents.

It will readily be observed that the underlying idea of labor organization is, that there is an unchangeable antagonism of interests between labor and capital. The leaders of organized labor frankly admit that wages, hours and conditions of work are determined solely by a trial of strength, not by any rule of reason, and they therefore endeavor to put themselves in a stronger fighting position than their opponents. Believing that there must be an irreconcilable opposition of interests between labor and capital, they conclude that industrial peace can be achieved only by the domination of either labor by capital or of capital by labor, and they intend that organized labor shall dominate. The only peace that they consider possible is a "pax Romana."

Trade unionism is not, therefore, an attempt to establish harmony between labor and capital, but it is a plan to organize the camp of labor and to put it into a position of fighting power superior to the camp of capital. As unionism grows, it makes for bigger and better industrial wars. The former warfare between a single employer and his employees has been enlarged by trade unionism, so that now all the employers in an entire industry are at war with all the organized workers in that entire indus-

try. And the time is approaching when all the capital in an entire country will be pitted against the whole number of organized workers in that country. The general strike must follow the ever-widening organization of labor and of capital, as surely as the world war followed the ever-widening alliances in the two camps of the great powers.

In the perennial warfare between organized labor and organized capital the individual battles are strikes and lockouts. When labor takes the offensive, the battle takes the form of a strike; when capital takes the offensive, the form of a lockout. In this brute economic warfare neutrals are not considered by either side; the interests of the public are ignored and its rights are trampled upon, precisely as were the rights of neutrals in the world war.

The Class War

As the organization of labor on the one hand and of capital on the other approaches nation-wide completeness, trade unionism logically develops into the class war, the war of the workers against the capitalists. The rigorous methods of war are applied on both sides with ever greater ruthlessness. Every worker is forced to join the union and every employer is forced to join the employers' federations. As in political warfare, the methods of conscription are used and individual liberty is abso-

lutely denied. The worker or the capitalist who will not join his respective organization is considered and treated as a traitor to the cause of labor or of capital.

The closed shop is enforced throughout the country, and the workers' allegiance to their unions becomes higher and more vital to them than their allegiance to the government. They can live without being loyal to the government, but they will starve if they are not loyal to and in good standing with the union. Thus a private economic government is set up by the labor leaders that is more powerful than the public political government and the constitution and laws of the country.

In the case of capital, its influence over government is so great that it can generally modify the law so that its complete organization can be kept fairly within the law. It will thus be readily seen that, if class warfare is allowed to go far enough, it will destroy democratic government and replace it with the tyrannical domination of class rule, either the class rule of the capitalists or the class rule of the workers. The complete domination and the absolute supremacy of labor over capital are the frankly avowed goal of the workers who advocate a general class war between labor and capital throughout the country.

In fact, the class warfare which is the logical

development of trade unionism does not stop at the boundaries of a country. The unions of the leading countries tend constantly toward federation and amalgamation, and the object of the more extreme advocates of class war is, to set the workers at war with the capitalists throughout the world. It thus becomes evident that this private warfare endangers not only national peace, but the peace of the whole world, and threatens to replace popular and responsible government by class tyranny throughout the world.

Before proceeding to consider further developments of this philosophy of labor, it is well to bring again clearly and forcibly before our minds the fact that this entire movement is based upon the idea that the interests of labor and of capital cannot be harmonized; that no formula can be found that will enable labor and capital, after having co-operated in producing useful commodities, to divide the proceeds of their efforts upon a basis of reason and equity, rather than to fight like wild beasts over the division of the spoils.

Socialism and Communism

The next step in this reasoning on the part of the workers is, that capital should not only be dominated by labor, but that it should be entirely expropriated by labor; that a radical change should be

made in the ownership system of society. Carl Marx, in his "Capital," frankly argues that there can be no reasonable or equitable division of the product of industry between labor and capital, because all capital is the result of the exploitation of labor and the withholding from labor of part of the results of its efforts. He reasons that all capital is robbery, and that capital therefore is not entitled to any part whatever of the product of industry. And he carries the objective to be attained by the class war a step further than the domination of the workers over the capitalists. The Marxian philosophy advocates the total extermination of the capitalists and the operation of industry entirely by the workers under a governmental form of socialism or communism. Since all capital, in the view of Marx, is robbery, he advocates the forcible confiscation of capital by the workers as merely the reassertion of their rightful title to wealth which was produced by the workers, and of which they were exploited by the policy of capital in appropriating all surplus value created by labor above what is necessary for its bare continued subsistence.

Notwithstanding the extreme prolixity of the three ponderous volumes in which Marx expounds his theory of capital, he devotes but a few sentences to this dictum that "all capital is robbery." He merely cites a few instances of the oppression of

labor in feudal times and in the earliest days of industrialism, and then without further inquiry makes the sweeping generalization that, because some capital in the past has been acquired unjustly through oppression of labor, therefore all capital in all countries of the world at the present time is the result of the robbery of the workers. To show the utter falsehood of this generalization, it is only necessary to mention that in the United States there are at the present time a considerable number of labor banks, whose capital has been largely or wholly subscribed by labor out of its savings. Did the workers exploit themselves in acquiring this capital?

There are innumerable instances in the United States and in all progressive countries in which thrifty workers have out of their savings acquired substantial shares of the capital of great industries. Whom did these workers exploit? Did they rob themselves in the acquisition of this capital?

To any candid mind the absurdity of Marx' fundamental position is obvious. Capital is not the result of robbery, but of the savings of thrifty workers who do not spend all that they earn. And if capital is not robbery, but thrift, then the forcible confiscation of capital and the expropriation of the capitalists are not justice, but are themselves

robbery, and the whole Marxian system of communism or socialism falls to the ground.

The second dictum of Marx that is fundamental to his system of communism is equally false. He asserts that all value is produced by labor alone, and that capital has no part whatever in the production of value. From this he reasons that capital should have no part whatever in the earnings of industry. Any candid observer must admit that the worker who uses the tools and machinery which capital places at his disposal produces many times the amount of product that he could produce with the same amount of labor, but without the tools and machinery. Capital, therefore, does assist in producing or in increasing the amount of production.

There is a sense, it is true, in which Marx was right in asserting that all value (with the exception of natural resources) is produced by labor. The tools and machinery used in industry are themselves the product of labor. Capital is congealed labor, stored-up labor. In this sense all exchange value (again with the exception of natural resources) is produced by labor; that is, by manual labor or brawn labor, by management or brain labor, and by capital or stored-up labor. These are the three essential elements in modern industry, none of which can be dispensed with.

The Russian bolshevist experiment at first tried

to dispense with two of the three, with capital and management, but as soon as the workers had worked up the materials in hand in the seized factories, operations came to a standstill. It was found absolutely necessary to have capital in the shape of further raw materials to work up. And it was also found absolutely necessary to have management, in order to market the product, to secure proper raw materials, and to co-ordinate processes of manufacture. Group communism or single-factory-unit communism, therefore, speedily passed into state capitalism, and the state as capitalist was speedily compelled to re-admit technical management into its industries.

Nationalization and State Ownership

There is, however, a large body of labor which, while advocating practically the same change in the ownership system that is advocated by Marxian socialists through violent seizure of capital, does not favor methods of confiscation to reach the goal, but appeals rather to the right of eminent domain. These workers think that the private capitalists should be exterminated by the transfer of all productive industries to the ownership of the state upon payment of proper compensation to the capitalists. If the capitalists, however, are permitted to re-invest the compensation received by them for their

industries in other private industries in fair competition with the nationalized industries, the far greater efficiency of private enterprise invariably gains for it the bulk of the business and of the profits, while the inefficient nationalized industries, operated by politicians instead of practical, trained business men, earn nothing but large annual deficits. Nationalization, therefore, as a plan to exterminate private capitalists is bound to fail.

Furthermore, neither nationalization nor bolshevism solves the problem of harmony between labor and capital. Both systems simply result in the transfer of the ownership of capital from individuals to the nation. Whether the workers are likely to obtain better wages, hours and conditions of labor from the politicians at the head of national industries, against whose rulings there is no appeal, and resistance to whose rulings is very likely to be regarded as treason against the government, is very doubtful. And as neither nationalization nor bolshevism attempts to find any equable or reasonable basis for the division of the product of the state enterprises between state-owned capital and the state-enslaved workers, the division of the product on the basis of relative strength results far more unfavorably for the workers under a system of nationalized or socialized industries than it does under the system of private capitalism, in which the workers

can still appeal for relief from gross economic injustice, first to their economic power, and finally to the courts and to the legislatures.

It must be admitted, however, that the foregoing reasoning applies only to industries, and not to natural resources. Doubtless the people as a whole are fully justified in retaining for the whole nation its common heritage of land, water powers, minerals, timber, oil, etc., and in permitting their use and exploitation by private individuals only under the strictest regulation against excessive charges to the public. A sharp distinction must be drawn between nationalization of natural resources, which are the gift of God and upon which no man has expended any labor, and nationalization of industries which are the result of labor, self-denial and thrift of individuals who own them. A vein of coal, for instance, is the gift of God, and the discoverer of it acquires by that chance no right to take a toll of royalty from every worker whose toil digs the coal out of the mines and makes it available for use. The discoverer has expended no labor upon the vein of coal, and is therefore not entitled to any return, whereas the miner is entitled to a fair return for the labor which he expends in mining the coal. The same holds good of a water-fall, on which no man has expended any labor. No man, therefore, can acquire the right (and therefore cannot transfer

title to such a right) to demand a return or rental for that upon which he has not labored. The waterfall rightly belongs to the whole people.

But even though the natural resources of the country may wisely be reserved for national ownership, the industries necessary for their exploitation can almost invariably be operated more efficiently, both for the benefit of the workers and of the public, under a system of leasing to private capital than by government operation.

An Industrial Branch of Government

In addition to workers' plans for modification of the wage system and of the ownership system of society, labor advocates several modifications of the management system, in its efforts to establish industrial harmony. Perhaps the most important of these plans is that for an industrial branch of government which is to have intimate and extensive control over the management of all industry throughout the country. These plans are more conservative than the bolshevist plan for the complete domination of labor in the government. They look toward the balancing of the interests of labor and capital in the industrial branch of the government, while the public interest is guarded in the political branch of the government.

The experiment is being tried principally in

Italy, where the Senate is being reorganized into a body equally representative of labor unions and of federations of capitalists, while the public interest is vested in the Chamber of Deputies. Thus far the plan is still in its initial stages, and it is too early to predict whether or not it will establish permanent industrial harmony. The whole experiment has been imposed upon Italy by the dominant will of Mussolini, and there is of course a great deal of antagonism to it on the part of the former socialist labor unions, which have been ruthlessly broken up and replaced by fascist unions which the socialist workers naturally regard as "hand-picked" unions entirely servile to the will of the dictator. From the distance at which an American views the experiment, it seems that, while Mussolini is sincere in his effort to give labor and capital equal representation in the industrial chamber and to establish thoroughly impartial tribunals, to which any deadlocks between the two must be submitted for decision without fighting (that is, without strikes or lockouts), still the dictator's dependence upon the camp of capital and the original opposition of Fascism to the socialist workers who constituted a majority of the labor unions tend to give the governmental arrangement the appearance of the dominance of capital over labor. At any rate, Fascism is universally regarded by the socialists and the com-

munists as the exact antithesis of their aims for the complete domination by labor over capital.

Mussolini's plan is somewhat similar to the effort of the International Labor Organization, closely affiliated with the League of Nations, to establish harmony between capital and labor by means of an Assembly made up of an equal number of representatives of labor and of capital from each member state, with the representation of the governments of the member states equal in number to both the representatives of labor and of capital combined. The underlying idea here again is, to give labor and capital equal weight in an industrial branch of the League, with the interests of the general public safeguarded by giving governments sufficient power to overrule or at least to offset both labor and capital, should they combine to exploit the public.

While an industrial branch of government may in time be evolved that will establish permanent industrial harmony, there are several serious dangers involved in the experiment. In the first place, with capital and labor equally represented in the government, a deadlock between the two would result not merely in a paralysis of industry as now, but also in a paralysis of government itself. It is very likely that when either capital or labor finds it impossible to carry its measures through the political

chamber representing the public, the thwarted class may in turn refuse to pass through the industrial chamber such needed general legislation as the budget and may thus paralyze the entire government of the nation.

In the second place, when the disputes between capital and labor become controversies in the legislative bodies of a nation, any refusal of a minority to submit is changed from a strike or lockout to rebellion against the government, and industrial warfare easily becomes civil war. The army, which owes allegiance to the government, becomes divided in its loyalty when the government itself becomes divided into two equal camps that are deadlocked, with each side appealing to the army to support its contention. Under these circumstances the army ceases to be an impartial and final arbiter to enforce submission without fighting to the decision of impartial tribunals.

In the third place, the amount of wages that a man is willing to take for his work depends solely upon the free will of that man, and any attempt to force workers to work for wages that are not satisfactory to them constitutes involuntary servitude, practically slavery. Furthermore, if a million or more workers refuse to work, the only way in which they can be compelled to work is by a form of military conscription, which under such circumstances

is merely a euphonious name for slavery of the individual to the state. Instead of the state being the creature and the servant of the citizen, the citizen becomes the slave of the state.

Even under the most severe measures of conscription it is possible only to force unwilling workers to go through the form of working. They can effectively "strike on the job," as has frequently been done in labor disputes. Only labor willingly undertaken by the worker will be vigorously and efficiently performed. An industrial branch of government, therefore, will not solve the problem of harmony between labor and capital until it evolves a formula for the division of the product of industry between the two that appeals to the sense of justice of both parties. And when that formula is found and written into law, a distinct industrial branch of government will be unnecessary.

Social Insurance

The group of modifications of the management system which labor classes under the general name of social insurance is in some respects very similar to the group of measures proposed by capital, in its efforts toward the promotion of industrial harmony, under the name of welfare work. Both labor and capital regard these measures merely as alleviations of the distresses inherent in the present methods of

management in industry, not as permanently constructive measures for the removal of the causes of distress.

The vital difference between welfare work as conducted by capital and social insurance as demanded by labor is, that the former is a charity on the part of capital, while social insurance is proposed by labor as an obligation of capital, legally enforceable and due to labor as a matter of right, not as a matter of charity.

One of these claims of labor,—the right to be covered by insurance at the expense of industry for all accidents incurred in the course of the worker's regular employment and as a result of the risks taken in that employment—has been generally accepted as just and has been enacted into law in many enlightened industrial sections.

In a lesser degree the responsibility of industry for social insurance to cover vocational diseases and the deaths resulting from them has also been recognized as a just claim of labor, although the law has not yet so generally enforced such insurance upon industry. Enlightened employers, however, have recognized the fairness of such social insurance, and in many instances they have voluntarily established sick benefits and death benefits at their own expense for their workers, and on this point there is not much difference of opinion between the reasonable

demands of labor and the voluntary concessions of enlightened capitalists.

On the subject of pensions for superannuated workers opinion is much more widely divided, and the law in most cases has taken hardly any cognizance of this form of social insurance. In some quarters it is thought to be the obligation of each separate corporation to pension its own superannuated employees. In other quarters it is contended that this obligation should rest upon the nation as a whole, on the theory that the aged worker has given a life of service to society as a whole, rather than to the particular employer who may happen to have been his last employer. Unless pensions were made the obligation of the nation instead of the last employer, it is thought that it would become increasingly difficult for the worker to obtain employment anywhere as he began to approach the pension age limit, and thus the obligation to pay pensions would greatly increase the amount of pensions required.

Organized labor as a rule does not make the payment of pensions one of its prominent policies. Labor leaders feel that, if employers pay their men good wages throughout their years of vigor, the men themselves will be able to look after the needs of their old age. They prefer full social justice for the worker to social insurance against a situation

which would not arise if justice were done to the worker in his prime. As a palliative, however, labor as a rule favors some form of old-age pensions for the workers.

The remaining form of social insurance—unemployment insurance—is in general favored by labor and opposed by capital. Among those who favor it there is a difference of opinion as to whether unemployment insurance is an obligation that should rest upon a particular enterprise, upon industry in general, or upon the nation as a whole. In America the Amalgamated Clothing workers are trying to work out a method of unemployment insurance resting upon that particular industry; in England, on the other hand, the burden of unemployment is borne by the nation as a whole by means of the dole.

While it is freely admitted both by capital and labor that unemployment is perhaps the most grievous and cruel hardship inherent in our present industrial system, the subject of unemployment insurance, in whatever form it is carried out, bristles with difficulties. The system tends to cause its own breakdown. When the insurance is carried by a single industry for its own unemployed, all unemployment doles paid must be added to the cost of the product of the workers remaining employed. As a result the more unemployment there is in an

insured industry, the higher must be the prices of its product, and as a natural consequence the smaller the demand for that product will grow. The smaller demand in turn increases the amount of unemployment in the industry, which in turn again increases the prices of the product, until the public is obliged to use substitutes and the whole system of unemployment insurance breaks down.

When the nation as a whole assumes the obligation of unemployment insurance, the result is apt to be similar. The price of that nation's products must be increased in the world markets by the amount of unemployment doles paid to the workless. This increase in the price of its products will decrease the demand in the world markets for the nation's goods, which will result in still greater unemployment, still higher prices, still less demand, until the nation can no longer compete in the open world markets, and the system of unemployment insurance breaks down.

Co-operative Enterprises

The final proposal of the workers looking toward industrial peace which was mentioned at the beginning of this chapter—co-operative enterprises—involves a modification of both the ownership system and the management system. The basic idea of co-operative enterprises of the workers is the elim-

ination of all possible friction between labor and capital by the establishment of enterprises whose capital is entirely supplied by the workers and whose management is conducted entirely by the workers. The capitalists and the laborers in such concerns being the same persons, it is impossible that there should be any friction between them.

It is noteworthy that co-operative enterprises almost invariably consist of stores, by whose ownership and operation the workers hope to reduce the cost of the necessities of life to themselves. Co-operatives aim rather to decrease expenses than to produce income. They deal exclusively with distribution and consumption, not with production. While there have been experiments in co-operative manufacturing, these experiments seem to have almost invariably failed, principally on account of the far greater complexity of the processes of production, as compared with the processes of distribution and commerce. A far higher grade of management skill is required in manufacturing enterprises than is required in the keeping of a store for the distribution of finished products. For this reason success in manufacturing demands the employment of trained management, instead of the selection of a manual laborer without the requisite training. In other words, when it comes to the complicated processes of modern manufacturing,

management invariably tends to become separate from manual labor, and to be represented by different persons from the laborers.

In like manner, while only a moderate amount of capital is required to operate on a co-operative basis a store for the supply of the workers' daily needs, an enormously greater amount of capital is required to operate a large, efficient, modern manufacturing concern. So that, while labor can readily supply the capital needed to run a co-operative store, when it comes to large manufacturing enterprises the constant trend is toward the separation of capital and labor and the furnishing of each by different groups of persons.

The co-operative proposals of labor are somewhat similar to the stock ownership proposals of capital, the principal difference being that labor aims at the complete ownership of the co-operative enterprises, while capital proposes to give labor only a small minority of stock ownership. There is no doubt that the complete ownership of the capital and the complete supply of the labor in a business by the same persons would practically eliminate the possibility of friction between capital and labor. But the co-operative idea of labor confines itself to a small corner of the great field of industry, although advocating the ownership of all the capital in this small sphere; while the stock ownership idea

of capital confines itself to a small percentage of the capital, although spreading its plan over the whole field of industry. In a later chapter there will be a further discussion of the possibility of industrial harmony by the gradual purchase by the active workers of all the capital of the industries in which they are employed, thus finally merging capital and labor into a single class of persons.

PART III

A PLAN FOR HARMONY BETWEEN LABOR AND CAPITAL

CHAPTER VI

LABOR IS NOT A COMMODITY

After the preceding cursory survey of the causes of industrial friction and of the methods by which their removal has been attempted, let us turn again to the simple illustration with which we began,—that of the manufacture of a chair selling at five dollars, with the materials costing two dollars supplied by one person and the work of manufacture supplied by another person.

Is there no method by which the three dollars of new value created by the manufacture of the chair can be divided between the capital and the labor other than by a contest between the two men? Can no reasonable and just rule for the division of the product of industry between capital and labor be found, a rule that will appeal to the sense of fairness of both groups, and that will thus make possible the division of the product between them without friction or fighting?

The remainder of this volume is devoted to the

unfolding and application of an equitable method by which this division can be made, with the object of establishing a sound basis for permanent harmony between labor and capital in place of the perennial economic warfare that now exists between them in all industrial countries.

There are two master keys to the solution of the problem. The first is, that labor is not a commodity; the second, that capital is a commodity.

Platitudes, truisms, the reader will say; trite remarks whose truth is admitted by everybody, but which are worthless for any practical purposes. "The labor of a human being is not a commodity or article of commerce,"—has it not been written into the national law in the United States of America? It has, indeed; but since no definite application of the principle has been made by law, the principal itself has been ignored by big business.

Labor Now Treated as a Commodity

Under the present method of employment labor is in fact considered as a commodity and is actually treated as a commodity. It is regarded and treated as an article of commerce, precisely like any other commodity. Labor is bought and sold like any other commodity. Labor is treated by capital as one of the costs of production, precisely like the cost of any other commodity entering into the prod-

uct. The cost of this commodity is kept at a minimum both of quantity and of price, like that of any other commodity used in manufacturing. Labor is bought only as needed and dispensed with by capital at any time, regardless of the consequences to the workers and with no more responsibility for the worker's fate than the capitalist would have for the spoiling of a perishable commodity that he did not care to purchase.

In one respect capital treats labor worse than a commodity is treated. No capitalist will keep on hand an unnecessarily large supply of raw materials: that costs money. But many capitalists will keep on hand an unnecessarily large supply of labor, a peak load of labor that they know perfectly well they cannot employ regularly and that they require only in periods of exceptionally active business. That doesn't tie up any money. Unemployed labor costs the capitalist nothing until it is wanted. To the laborer unemployment frequently costs privation and semi-starvation. The entire waste of labor-value by this practice of overmanning on the part of capital falls exclusively upon labor, not upon the capitalists who keep the extra supply of this commodity, labor, "on call" or "laid off," ready for their use when they can make a profit out of its employment. When the employment of labor shows a profit for the capitalist, he is

legally at liberty to make this profit from the efforts of his fellowmen; but if, after he has gathered the workers at his factory, perhaps at a location remote from other employment, he no longer sees a profit in their employment, he is under no legal obligation to keep his workers steadily employed and has no legal responsibility for the enormous loss of labor-value caused by laying them off, nor for the suffering of the workers consequent upon such action.

Employer's Obligation For Steady Employment

If the laborer is to be treated as a human being and his labor is not to be regarded merely as a commodity, two far-reaching changes must be made in the present method of employment. The first is, that the capitalist who seeks to profit by the labor of his fellowmen must be under moral and legal obligation to keep these fellowmen steadily employed; and the second is, that the laborer should have a moral and legal claim to the full social value that his labor produces.

The minimum length of the labor contract permitted by law should be the year; not, as at present, the week, the day, or even the hour. The worker is a living person and he must live the year round or he cannot live at all. The worker is not like a machine which may be stopped for six months, and which at the end of that period will be just as fit to

run as ever; nor is the worker like a commodity which, when not required, can be laid upon the shelf for six months, and which at the end of the period will be as good as before. Treat labor as a commodity in this way and at the end of the six months the worker will be dead or, at the very least, half-starved and in keen distress and want.

Of course, the objection will immediately be raised, that there are seasonal industries in which it would be impossible to keep the workers employed steadily throughout the year. Unfortunately, there are no seasonal human beings who need the necessities of life only during the so-called busy season of the seasonal industries. If a year were by law made the minimum term of employment for labor, all employers in seasonal lines of business would very quickly learn to do what humane employers do now; they would find a complementary line of business with the opposite seasonal fluctuations, to keep their men employed during the slack season in their industries. Even the illiterate Italian who paints on his wagon, "Ice, Coal and Wood," has solved for himself the problem of keeping busy steadily throughout the year in seasonal lines of business.

The manufacturers of apparel could complement the manufacture of winter garments by that of summer clothing. The operator of a city hotel

could take up the slackness of the summer season by running a summer country hotel. The building contractor would make special efforts to get his operations under roof in the fall for winter finishing in the interior, etc.

The reason why this is not more generally done at present is the greed of employers, who are willing to take the cream of large profits derived from the exploitation of labor employed during the busy seasons, but who refuse the skimmed milk of little or no profits, or even a diminution of previously realized profits, resulting from the employment of that same labor during the off season. The employer is permitted under our present employment system to take the profits of labor exploitation and to leave the losses of labor exploitation to the laborers.

It is, of course, realized that there would always be a certain amount of unemployment in a great industrial country, even if the legal change suggested above in the minimum term of employment were made; and for this unemployment a system of labor insurance should be provided on a strictly business basis like that upon which casualty insurance and life insurance rest at present.

The Just Value of Labor is its Full Result

The second change suggested above in the present system of employment is, that the present method

of treating labor as a commodity, to be bought at the cheapest possible price, must be abandoned, if permanent harmony between labor and capital is to be established; and in its stead a method of remuneration must be found that will give to labor the full social value that it produces.

And how shall the full social value of labor be determined? The theory of Karl Marx on this point, as previously discussed, was very simple,—too simple, in fact. After his practically unsupported assertion that all capital is plunder derived by the withholding from the laborers by the capitalists of part of the workers' product, it very naturally followed that the capitalists had no right to any part whatever of the product of industry, and that the whole product of industry represented the social value of labor. If, however, the obvious facts are accepted, that the great bulk of existing capital is the result of thrift and saving and is therefore legitimate, and that the product of modern industry is made possible, or at least very largely increased, by the use of capital; then it follows clearly that capital contributes to production and that the owners of capital are rightly entitled to a return from the product of industry.

The determination of the part of the product justly due to each of the two factors of labor and capital is the basic problem to be solved in order to

establish harmony between the two. The general direction in which the true solution of this problem is to be sought is indicated by the two master keys mentioned at the beginning of this chapter. If labor is not a commodity, but is the living effort of human beings; while capital is a commodity, an article of commerce, a dead thing; then the share of the product that rightly belongs to labor (both brain labor and brawn labor) is to be found by deducting from the total product of industry a fair rental for the commodity, capital. The remainder of the product of industry should go to the brain workers and the brawn workers, to the management and the labor which fructify the capital and produce the increase or the product.

Analogy of Partnership

The principle here advocated upon which the division of the product of industry is to be made between labor and capital is the same as that which has for centuries been employed in the partnership relation. When two men form a partnership for the manufacture of a certain commodity, each gives his whole time to the work equally, while their relative investments may be in any ratio whatever. The two partners will first of all each have a regular drawing account for his current living expenses. Then, after the results of the year's operation are

known, a reasonable rate of interest or dividend will be paid upon the capital employed, after which the remainder of the profits will be divided between the two partners as their partnership profits. In other words, they proceed upon the principle that the dead capital is entitled to its rent or interest (given to each partner in proportion to his investment), but that all the remainder of the gain is the result of their labors.

Labor is Not a Machine

There is one more application that should be made in law of the principle that labor is not a commodity. It is, that labor is not a machine. It is perfectly proper to confine the action of a machine to one little detail of the processes of manufacture, but it is not proper to narrow the whole life of a human being to a single petty detail of the work of a great industry, to stamp that human being unchangeably as a rigger, a comber, an end man, a tripper, or what not; and to keep him constantly employed at that one minute detail of work year in, year out, without any hope of advancement to larger responsibility and better paid work. That method of handling labor treats labor simply as a machine, totally denies all human hopes and aspirations toward better things, and it is responsible for a great deal of the unrest of labor. If a worker in

a low position can look forward with reasonable certainty to regular advancement in due time through the various processes of the industry in which he is engaged, he will lose the hopelessness that now characterizes the great mass of "unskilled" labor and will feel that he is being treated as a human being, and not being merely handled as a machine destined to continue its single monotonous punching or cutting until it is worn out, and then to be thrown upon the scrap heap. To treat labor as a machine, without hope of advancement, is to fasten the hopelessness of the Indian caste system upon industrial countries, with the various technical jobs as the names of the castes.

In all large industries the law should require that all working positions be graded according to their value to the enterprise, which in general would be in accordance with the wage they paid, and that workers be advanced regularly from grade to grade as vacancies occur or as the business grows.

"Transfers," the production manager and the efficiency expert will immediately object, "cost money; it is expensive and annoying to keep training men for different kinds of work, whereas the man who remains at the same job grows continually more expert at his particular task." The answer to this is, that lack of transfers transforms the intelligent, aspiring, hopeful youthful citizenship of a

country into a mass of mentally stunted, hopeless, discontented citizenship, ready to attack a governmental system and an industrial system that condemn them to such lifelong drudgery at a single trivial task. Here, again, the issue is between the wealth of nations and the welfare of nations.

CHAPTER VII

CAPITAL IS A COMMODITY

Capital a Dead Thing Worth a Fixed Use-Price

Wherever the word capital is used in this book capital without services is meant. The service which a capitalist may give with his investment is always termed management and is classed with labor, which in this volume always includes brain work as well as manual labor. Capital, in this strict sense of capital without services, is a dead thing. Its usefulness is the same in whatever industry it is employed. The differences in its degrees of productiveness in different industries are not due to any differences in the capital invested in these enterprises, but entirely to human or natural factors outside of the capital. Capital itself is a homogeneous, dead thing, and therefore its use-value, whether in the form of interest or dividend, is the same in all industries irrespective of their nature.

The human factors which cause differences in the productiveness of dead capital (with the one exception of investment judgment, which will be discussed in the next chapter) are differences in the ability of the management and differences in the skill and intensity of the labor applied to the capital. It follows, therefore, that capital is rightly entitled only to a reasonable and limited return, while the remainder of the product of industry rightly belongs to management and labor.

The principal natural or physical factors which cause fluctuations in the current market price of capital are risk, and supply and demand. These varying natural factors are taken into account by the open market in determining the current rate for capital secured by industry through loans or bond issues. A method by which a fair dividend rate, which also allows for these fluctuating factors, may be determined will be discussed in the following chapter.

Causes of Differences in the Rate of Earnings

It may be well, however, to consider a little more closely the fluctuations in the rate of earnings of an enterprise that are caused by the human elements. The first of these is the judgment of the investor. It is evident that, if one investor uses poor judgment in the selection of a seam of coal upon

which he intends to operate, while another uses excellent judgment, the return from the capital invested by the former will be less (other things being equal) than the return of the latter. He has used poor judgment in the investment of his capital. Or if one financier locates a railroad line poorly both as to engineering difficulties and as to traffic possibilities, while another, after carefully studying the topography of the country and the trends of its commerce, uses excellent judgment in these respects, the capital of the former will, of course, not be as profitably employed as that of the latter. Or if one operator uses poor judgment in selecting a tract of land for urban development and invests his money in the construction of streets and other improvements for which the result shows that there was no demand, while another operator selects a tract with good judgment as to the trend of development, the former's capital will not yield as large a profit as that of the latter. All of these and similar instances of differences in the rate of return upon capital are due to differences in investment judgment.

Given two coal mines of equal natural possibilities, however, there may still be a great difference in the rate of profit of the companies which operate them, due entirely to differences in the ability of the management in each case. Two railroad lines

equally well located as to grades and traffic possibilities may still yield very different rates of profit upon the capital employed as a result of able management in the one case and incompetent management in the other. In the same way, the two realty operators used as an illustration may display equally good judgment in the selection of the tracts in which they invest, but the management of one tract may build far more attractive houses or use far greater skill in reaching the possible buyers, may arrange better transportation facilities, provide better school or social facilities, etc.; all of which advantages of the one tract over the other, which are due entirely to differences in the ability of the management, will cause differences in the rate of profit on the investments.

Again, two investors may use equally good judgment in the location and erection of textile plants, and the two mills may have equally good management; but if the workers in the one mill are intelligent and loyal, so that they turn out a high grade product and avoid waste, while the workers in the second mill are ignorant and disloyal, turn out a great many seconds, and waste a great deal of raw material in the processes of manufacture, the rate of earning in the first mill will be much higher than that in the second; and the difference will be due entirely to the skill of the workers. In the erection

of two buildings two investors may have used equally good judgment in selecting the plot and the type of building, and the two contractors may have equal ability; but if the workers on the one structure show good will and skill in dovetailing the work of the various crafts and operations with the least friction, loss of time, or waste of effort, while those on the other building go out of their way to delay or hinder other crafts, stupidly finish parts of the structure that must again be opened or altered for piping or wiring; it is evident that the finished cost of the two buildings may be very different although the rental will be the same, the resulting difference in the rate of earning on the capital invested being due entirely to differences in the skill and loyalty of the workers.

None of these differences in the rate of earning on capital is in any way due to anything in the nature of capital, which is a homogeneous, dead commodity whose usefulness in all of these enterprises is precisely the same, and whose return therefore should be constant and should not vary with these fluctuations.

Precedence of Wage Over Dividend

Industry is conducted for three purposes: 1, to supply the needs of the consumers; 2, to afford a

livelihood for entrepreneurs, managers and other workers; 3, to provide a return on invested capital. The first purpose concerns the relations of both capital and labor to the public and is not within the immediate scope of our present inquiry. It is the general view that, if competition is kept free and unshackled and the consumer is free to direct his purchases as he will, the public will be able to protect itself from an extortionate combination of capital and labor for the purpose of exploiting it. In all cases of natural or legal monopoly, such as public utilities, railroads, etc., it is the general view that the government which grants the monopoly may rightly frame reasonable regulations, so that the consumers' needs are met at a reasonable price.

The second purpose of industry,—to afford a livelihood for all those who are actively and wholly employed in an enterprise—properly takes precedence over the third purpose, the payment of dividends on capital, for the reason that investors have equal facilities with other workers to earn their livelihood by their active work, whether of brain or brawn; and therefore their returns upon invested capital are normally surplus income, over and above the livelihood which the investors obtain by their labor; while the wages of labor are the sole source of livelihood for the workers who are not also investors. It follows from this that the division be-

tween labor and capital of the excess of gross receipts over capital costs should be made upon the principle that, after a reasonable dividend has been paid to capital all the remainder should go to labor; and not upon the principle that, after the minimum upon which labor can subsist has been paid as wages all the remainder should go to capital.

In other words, capital should be treated as a commodity, for whose use a fixed rent should be paid, while labor should not be treated as a commodity. The workers should be treated as living human beings, whose livelihood is more important than the surplus income of investors. A living for labor before dollars for dividends.

At present capital is the "residuary legatee," to use an illustrative legal phrase, in the division of the excess of receipts over capital costs, and labor is procured as a commodity at the lowest fixed price and figured into the cost of the product like any other commodity used in manufacturing. To reach the true basis for industrial harmony it is necessary that this method should be reversed, and that capital should be treated as a commodity to be procured at a reasonable rate per annum, and labor should be the residuary legatee to whom all the remaining earnings of industry should go. Labor here means brain labor as well as brawn labor, the labor of management as well as manual labor.

Principle of Dividend Limitation

By the practical application of the two master keys to the solution of the industrial problem; first, that labor is not a commodity; and second, that capital is a commodity; we have now arrived at the general rule that the rate of dividend upon all dead capital (that is, capital without services) invested in industry should be limited and that all the remaining earnings of industry should go to labor; that is, to the managers and the workers, the living human beings who labor with head or hand, giving their whole time to make the business a success.

The method of applying this general rule, of determining what is a fair dividend rate in the various industries, and how its necessary fluctuations with the varying conditions of industry and finance may be justly made, will form the subject of the next chapter.

CHAPTER VIII

A FAIR RETURN FOR CAPITAL

What is a fair return for capital? In order to arrive at a practicable and just rule for the division of the proceeds of industry between capital and labor, it is necessary to keep clearly in mind and to deal separately with the four factors of production previously mentioned, dead capital, investment judgment, management, labor. Omitting for the moment the factor of investment judgment, which will be considered later in this chapter, and combining the two factors of management and labor, as being merely a separation of labor into the two classes of brain work and manual work, it is obvious that, if a clear and practical rule can be found for determining the part of the returns of industry that should justly go to capital, then the remainder of those earnings must represent what should justly go to labor in this broader sense. If labor receives all the earnings of industry with the exception of a just rent or dividend for the use of the capital employed, then it is clearly receiving all that it earns, the full social value of its efforts.

A Flexible Rate

In determining the part of the earnings of industry that represent a fair return for capital, it is necessary to bear in mind that, while the use-value of capital is precisely the same in all industries, whether in the manufacture of shoes or of furniture, of textiles or of steel, there are the two elements of risk and of supply and demand which vary with the different industries and at different periods of time. The fluctuating element of risk must be covered by a fluctuating percentage of risk insurance, otherwise capital cannot be attracted in sufficient quantity for the needs of the community to the industries having an element of risk above the average. The variations in the supply of and the demand for capital must also be allowed for in the rate of return upon it. It is evident, therefore, that no fixed and immovable rate of dividend can be laid down as being at all times, in all industries, a fair and just return upon capital invested in such industries.

A fair rate of dividend, therefore, must be a fluctuating figure, precisely as a fair rate of interest on bonds resting upon the various industries and issued at different times must be a fluctuating rate. And the same principle that is used in financial circles to determine what a fair rate would be on any specific bond issue at a particular time and in a

particular industry is the principle that determines what is a fair rate of dividend upon capital at a particular time and in a particular industry.

That principle may be broadly stated thus. The rate of return for money that will command a sufficient supply of funds to meet the needs of society at any particular time and in any particular industry is a fair rate. A rate that causes an excess of funds to seek a certain channel of investment is an excessive rate of return, and a rate that leaves a scarcity of funds available for a certain channel of investment is an insufficient rate of return for such industry and at such time.

Of course the objection will be raised that a rule as vague, general and unstable as this for the determination of a fair return upon capital is without any practical value, because it cannot be practically applied to existing industries. It remains purely academically and philosophically a fair dividend rate, but brings us no nearer than before to a practical solution of the question with which this chapter opened.

The Variable Yield of Bonds

As a matter of actual fact, however, the money market does find this rule both workable, flexible and extremely delicate in its adjustment and determination of rates. In the bond market nations,

states and municipalities have an extremely close "rating" upon which their bond issues will find a market. The rate at which they can borrow is often fixed within 1/10 of 1% in large countries where the money supply is fairly constant. In the stock market investment bankers can determine in advance very closely the yield that is necessary upon a preferred stock issue of any large company, in order to float such issue and find it readily taken by investors. The comparative risk in the various industries is very closely estimated, so that investment bankers know that a long-established, staple industry can be financed on a smaller yield than a newly established industry or a temporary fad.

Fairly Constant Difference Between the Yield on Bonds and Preferred Stock

As a further step toward the solution of the problem of what is a fair return upon capital, it is important to note that there is a fairly constant difference between the yield at which capital in the same industry can be obtained upon a bond issue and upon a preferred stock issue. The yield upon a preferred stock issue in the open market of the New York Stock Exchange, which yield shows what is regarded by the general investing public as a fair rate of return upon such capital will be

found to be about 1% to 1½% above the yield of the bonds of the same industry.

For instance, the bonds of the American Sugar Refining Company at current quotations yield about 5.8%, while the preferred stock yields about 6.9%, a difference of 1.1%. The bonds of the American Smelting and Refining Company yield about 5%, while the preferred stock yields 6%, showing a difference of 1%. The bonds of the United States Steel Corporation yield about 4.7%, while the preferred stock yields about 5.6%, a difference of .9%. The various bond issues of the Bethlehem Steel Corporation average a yield of about 5.6% while the preferred stock yields about 6.8%, a difference of 1.2%. The different issues of bonds of the International Paper Company average a yield of about 5.7%, while the preferred stock yields about 7.2%, a difference of 1.5%.

Of course, all the quotations upon which these figures are based fluctuate from day to day, but the percentage of yield mentioned fluctuates only in a much smaller degree, and the ratio between the yield on the bonds of any one industry and the yield upon the preferred stock of the same industry (which usually fluctuate together) will therefore fluctuate still less widely. So that for all practical purposes it may be laid down as a safe principle, that at a yield of 1% to 1½% above the average

yield on a company's bonds a preferred stock issue of that company will find a ready market. The general investing public considers that a fair rate of return upon such preferred capital.

2% to 2½% Above the Average Bond Yield a Fair Return Upon Common Capital

Now if the general principle of dividend limitation with which the last chapter closed should be applied to all capital in industry, the result would be that all capital would be treated as preferred capital is now treated; that is, it would be given a preferred and cumulative, but limited rate of return, after which all the remaining earnings of industry would go to labor in its broader sense. The active workers, management and labor, would practically take the place of the present common stockholders, and their return (above their drawing account or preliminary wage) would be contingent upon the earnings after the prior payment in full of the preferred, but limited, dividends upon capital. Under such an arrangement a fair return upon capital in any industry would be about 2% to 2½% above the average yield of bonds resting upon the same industry.

This average bond yield for the year could be readily determined by public authority, either the United States Department of Commerce or some

other authority, and a fixed dividend rate would be thus reached for the return upon capital for that year, to be paid out in the dividends of the following year. The fluctuations in the bond yield from year to year would automatically determine the fluctuations in the fair return for capital for that year. If this arrangement were written into the law of the land, a dividend rate would be established that would at all times command sufficient capital for each industry to meet the needs of society, and that would be considered fair by the general investing public; and the great advantage would be gained that labor, knowing that capital could obtain only a fair return for its use, while all the surplus earnings of industry went to those who created them, could have no quarrel with capital over the division of those earnings.

Principle of Limited Dividend Not New

The principle of the limitation of dividends upon capital to a fair rate is not new. It is at present written into the law of the United States relating to the entire railroad industry. A rate of 5¾% has been fixed by law as a fair return upon the capital invested in the railroad systems of the United States, and the Interstate Commerce Commission is directed to regulate traffic rates in such a way that this rate of return shall be earned as an average

by the carriers of the various sections of the country. In public utilities, also, the government has framed laws by which the rates to the public are so regulated that the return upon the invested capital is a fair dividend rate only.

It is true that there is a difference between railroads and public utilities on the one hand, and competitive industries on the other. The former are in a greater or lesser degree monopolies granted by the governmental authorities, and it is therefore considered reasonable that these monopolies should not be allowed to earn exorbitant dividends through extortionate and unreasonable rates charged to the public that they are given a monopoly in serving. The restriction of dividends in these cases is based upon the right of the consumer to be protected. In the case of competitive and unrestricted industries the consumer can take care of himself, provided full and free competition is maintained among the producers, and provided he is perfectly free to direct his purchases as he will or to withhold them when he considers the prices of any producer unreasonably high. The reason for the limitation of dividends in these competitive industries rests upon the right of the workers to be protected and to be assured of the full fruit of their labor, the full social value of their services to society. In the one case the interests of the consumer require reasonable

limitation of dividends under the law, and in the other the interests of the workers require such reasonable limitation of dividends under the law.

Furthermore, the scales of wages paid by railroads and public utilities are in a measure based upon the scales of wages for similar work in the competitive, unregulated industries. It follows, therefore, that any protection given by law to the workers in the latter industries against an undue share of the profits of industry being taken by capital is also a protection for the workers in the regulated industries as well.

Elements of Risk and Supply of Capital Allowed For

In laying down the rule that a fair dividend upon capital invested in any industry is a rate about 2% to 2½% above the average yield of bonds resting upon the same industry, it is well to note at this point that this flexible and variable rate of return for capital allows fully for the differences in the element of risk and for the variations in the supply of and the demand for capital. As the inherent risk in any industry rises above the average or normal it becomes necessary to provide a more liberal yield upon the bonds resting upon that industry when new issues are floated, and outstanding issues

will sink on the open exchanges to a price that affords the same yield; and this would automatically raise the dividend rate considered fair and legally permissible in that industry. The general judgment of the whole body of investors in the country determines what increase above the bare universal value of money must be made in the yield of the bonds resting upon each industry; and thus the collective judgment of the whole financial world would at the same time determine the legal rate of dividend upon capital invested in each industry.

The only doubt whether a rate of dividend fixed annually by public authority in accordance with this rule would attract to each industry sufficient capital for the needs of society arises upon one point. Is a difference of 2% or 2½% between the yield of bonds and the yield of stock a proper and sufficient margin for the additional degree of risk attached to a stock investment over that involved in a bond investment? Should experience prove that this margin ought to be higher, or that it is too high to keep a proper balance between the amount of funds available for bond investments and for stock investments, it would of course be subject to legal revision, just as the 5¾% rate of return upon railroad investments may be revised, if it is found necessary or desirable.

The relative surplus or dearth of capital seeking

investment at any time is also allowed for by the flexible rate of dividend here advocated, and the necessary variations will automatically follow those of the bond yield as fixed by the collective judgment of the entire investing public.

Compensation for Investment Judgment

There are three difficulties in the application of the principle that all capital should by law be limited to a fair but cumulative return, as preferred capital is at present. These three difficulties are the treatment of investment judgment, of inventions, and of watered stocks. The present chapter began with the mention of the four factors of production,—dead capital, investment judgment, management, labor. In dividing the proceeds of industry between capital and labor (management and manual labor) investment judgment was left out of consideration. There can, however, be no doubt that the judgment of the investor is a vitally important element in the success of an enterprise. To it is due the difference between an oil well and a hole in the ground, between an industry well located as to raw material sources, power needs, transportation, markets; and one which suffers a serious handicap or is doomed to failure through poor judgment in any of these respects.

How is superior investment judgment to be justly rewarded under the system of limitation of dividends here set forth? In the open money markets investment judgment is rewarded in two ways, either by the larger size of the return or by the greater margin of safety and continuity of the return. The largest and the shrewdest investors generally prefer security and continuity of return to size of return; and they therefore generally prefer bonds to preferred stocks, although the yield of the former is invariably less than the yield upon preferred stocks. They consider their superior investment judgment fully compensated by the greater margin of safety. And this method of compensation for the element of investment judgment is in harmony with the equable and humane treatment of labor. It is the logical method to follow in view of the humane consideration, mentioned previously, that the capitalist has his income from his brain work or his brawn work as well as the worker who is not also a capitalist, and the former's return upon his capital is therefore surplus income, above the absolute necessities of life; while the wages of the worker who is not also a capitalist constitute his sole means of livelihood.

At this point it will probably be objected, that many owners of capital are widows and orphans and do not have the power of earning a livelihood

in addition to their returns from investments. The answer is, that in cases where these widows and orphans really cannot work, and do not simply refuse to work, their situation must be compared, not with active workers who can and do work for a living, but with the widows and the orphans of workers who are in a similar position with the widows and orphans owning capital. It may also be added that the superior investment judgment which might be considered entitled to a higher return rather than a greater margin of safety for its return is seldom or never the investment judgment of the widows or orphans themselves.

The assurance of a greater security for the limited but cumulative dividends under the plan here suggested arises from the fact that the workers, being assured of all the returns of industry beyond a fixed dividend, will take a far greater interest in the business and will increase its earning power to an extent that will give far greater assurance of continuity to dividends upon capital than the average investor has at present. Labor, by its very efforts to increase its own returns, must automatically increase the margin of safety and the assurance of continuity of the dividends upon capital; and this greater safety of return is an adequate, just and humane method of compensating superior investment judgment.

Treatment of Inventions

How about an invention of great value to mankind, achieved after years of labor and research and the expenditure of large sums of money? Shall the inventor, when he gets to the point of establishing a factory to produce his invention commercially, be allowed only the usual or average dividend upon his tangible factory investment? Would not such a limitation of return kill research and retard invention? It would. An exception to the rule for limiting dividends laid down in this chapter is necessary in the case of industries that are founded entirely or chiefly upon an invention or a scientific discovery.

A fair and just method of determining a proper return in such industries is suggested by the manner in which civilized governments now treat inventions or discoveries. Through the granting of a patent by the government the earning power of an invention is reserved exclusively for a period of years to the inventor or his assignee, and the high return which this monopoly makes possible upon the inventor's investment is regarded as his just compensation for conferring a permanent benefit upon the whole country or the whole human race. Under a system of limitation of dividends such as is here advocated a period of five years should be allowed to elapse, during which there would be no

limitation upon the rate of return that could be earned by an industry that rested chiefly upon an invention or discovery; and at the end of that period the industry should be permitted to value the invention by capitalizing the average earnings of the industry at the current rate of dividend fixed for that industry. After the actual value of the invention, as thus found, has been allowed as bona fide capital, the return upon that industry, like all others, should be limited to a fair rate, in accordance with the general rule here laid down.

Watered Stock

The case of an invention, however, is the only one in which the capitalization of earnings should be allowed by law, as it is the only case in which the previous expenditure of time, effort and money justify such a procedure, and in which no fraud or exploitation is practiced upon management and labor by such capitalization. All other instances of the capitalization of earning power are rightly stigmatized in the financial world by the epithet of "watered stock," and such practices should be absolutely forbidden by law.

The basic motive for issuing such fictitious capital stock is the deceit of the consumer and the worker. If a large company regularly declared dividends of 100% annually, there would be great

indignation against it on the part of the consumer for its extortionate prices, and there would be a demand for higher wages on the part of the workers in the company. In order to deceive both these classes the capitalists resort to the dishonest practice of issuing fictitious capital stock amounting to twenty times their actual investment in the company; and, presto, the consumer public and the workers see in the company's published reports that it pays dividends only to the very moderate amount of 5% per annum. The capitalists thus kill two birds with one stone. They overcharge the public, and they reserve to themselves all the excess profits above a fair dividend which are earned through the ability of the management and the skill, loyalty and application of the workers. Assuming that the consumer can take care of himself in a freely competitive state of industry, these excess earnings should rightly go to labor, to all those actively engaged in managing and operating industry, the men whose work produces the excess earnings.

It must not be thought that the above illustration of watered stock is overdrawn or exceptional. The practice is very widespread. Recently a still greater refinement of deceit has been invented by capitalists in the shape of "no par" shares of stock. In these cases a "no par" share of stock sometimes represents not much more than a single dollar of

actual cash investment. When the workers and the public in such cases see that the company has earned only $1.00 per share on its "no par" stock, this is passed over as being a very moderate return, whereas it is in reality 100% upon the actual investment.

These abuses on the part of capital have long since been recognized and suppressed by law in certain industries. In the banking field nothing but actual cash can be considered capital, and that cash investment must be certified by the banking department before stock can be issued against it. Likewise in the field of public utilities an increase of capital must be represented by tangible additional assets, as certified by the Public Service Commission representing the consumer public. The capital accounts of the railroads in America, also, are very strictly regulated and controlled by the Interstate Commerce Commission and cannot be watered at will by the capitalists, as was the practice in years gone by.

Such regulation of capitalization should be applied by law to all industry in the same way, so that the workers may not be obliged to earn dividends upon a large amount of fictitious capital before they reap any of the excess earnings of industry above a fair return upon the actual cash capital invested.

Of course, even in the fields where capital accounts are supervised by law at present the excess earnings above a fair dividend are placed in a surplus account which is the exclusive property of the capitalists, and the latter are legally permitted to convert such surplus funds into capital stock, which goes to the previous stockholders pro rata. This is a fraud upon the workers who create the surplus profits, and who should have an exclusive right to such surplus or excess profits. Instead of this, the workers are expected to earn dividends for the capitalists upon the capitalized excess profits which they themselves have produced and which rightly belong to them.

In the case of new industries it would be comparatively easy to establish a public authority to verify and supervise capital stock issues, in order to see that they represent actual, cash investments. In the case of existing industries, however, the true capital value upon which a fair rate of dividend should be allowed would have to be determined by the same method that has been adopted in the United States to ascertain the true capital value of the railroad system; that is, by actual physical inventory. Whenever the true capital value of an industry should become a question in dispute between labor and capital, under a system of dividend limitation, there should be a legal provision

that upon application of a certain majority of the workers an actual, physical valuation should be made of an industry by public authority, in order to "squeeze the water" out of the stocks.

CHAPTER IX

SURPLUS EARNINGS TO LABOR

If it has now been made clear that capital, being a commodity, is justly entitled only to the fair current rate for its use, plus a proper allowance for the varying element of risk in each industry as determined in the previous chapter; then it follows that all the surplus earnings of industry above this limited, cumulative dividend on capital rightly belong to labor, which is not a commodity, but is the living effort of human beings, and is the only means of obtaining a livelihood for such of the workers as are not also investors. Labor is here used, of course, in its broader sense, and includes both management and manual work.

Excess Earnings Distributed in Proportion to Salary or Wage

The total annual amount of surplus or excess earnings would be determined precisely as the

profits are now determined at the end of each year by the partners in a firm. After allowing for their moderate drawing accounts, they deduct from the earnings an agreed rate of interest upon the capital, this dividend being divided among the partners in proportion to the amount of each man's investment; and the rest of the receipts above capital costs (that is, above the replacement value of materials, machinery, buildings, etc., used up during the year) is considered by them to be the profit of the business, and this is divided among the partners during the ensuing year, or is added to their respective investment accounts.

After the total amount of the surplus earnings of a business, which should go to the total labor in that business, has been determined, the next problem is, in what manner can this lump surplus fund be fairly divided among the individual workers in the business? It should be allotted to each worker in proportion to his part in earning it; that is, in proportion to each worker's value to the business. The natural measure and the best practical approximation to the value of each man to a business is his salary or wage. The surplus earnings above a fair dividend, therefore, should be distributed among the brain and the brawn workers in the proportion that their individual salary or wage bears to the total pay-roll.

This arrangement would give the body of active workers in a business all that the business earns except a fair return upon the capital employed. It would therefore give labor as a whole the full value of its efforts, its full social value. And the method of allotting the surplus earnings in accordance with the individual salary or wage would be the closest feasible approximation to the full social value of his labor for the individual worker.

Who Bears the Losses?

While the objections to the plan for industrial harmony which is here being set forth will in general be reserved for consideration in a separate chapter, after the whole plan has been explained; there is one objection which, if left until that time, may so prejudice the minds of many readers that they will be unable to weigh the present argument in a candid manner. It will be said that in this proposed scheme labor will take all the profits above a moderate dividend upon capital; but, in case there are no profits, the losses will fall entirely upon capital. If labor shares in the profits of industry, it should also share in the losses of industry; and since the workers have nothing and cannot therefore share any losses, they are not entitled to any part of the profits.

Under this plan the workers do share the losses.

It is to be carefully noted that, while a limitation of dividends to a fair amount is urged, this limited dividend is to be cumulative. If it is not earned in one year, the full arrears must be made up before labor is entitled to claim any excess earnings. Furthermore, the creation of a reasonable reserve to ensure continuity of dividends would be a policy that should appeal to labor as well as to capital as a part of wise management. At the present time the common stockholders in many companies have an arrangement by which a certain surplus fund to insure the regular payment of preferred dividends must be set up before dividends may be declared upon the common stock. The same arrangement could be followed when labor takes the place of the common stockholder as residuary legatee of the earnings, and all capital is treated as preferred stock is now treated.

In case a company failed year after year to earn enough to pay the current, limited rate of dividend and constantly finished its year with a loss, it would become necessary to make a re-adjustment of the wage scale, just as it is now necessary in a similar case to make a re-adjustment of the drawing accounts of partners in a firm or of the capital structure of a corporation. This point, however, will be discussed more fully in the chapter on objections referred to above.

Limitation of the Earnings of Management

There is one important exception that must be made in the application of the rule here set forth that, after capital has been paid a fair dividend, all the remaining earnings of industry should be distributed to labor, that is, to the management and the workers, in the proportion that the salary or the wage of each person bears to the total pay-roll. The exception is, that the total earnings of management (both from salary and distribution of excess earnings) should be limited to a fair amount, if labor is to regard the division of the earnings of industry as just and therefore a basis of permanent industrial harmony. This exception is necessary for two reasons. First, it is frequently, if not generally, the case that the principal investors in a business are also active in the management of that business; and under our present methods of handling corporate finance these capitalists could vote themselves such large salaries in their capacity of managers that they would absorb any possible excess profits, no matter how large these excess profits might be. This financial abuse often occurs at the present time, in order that public attention may not be unfavorably attracted by extraordinarily large dividends. The second reason is, that managers are invariably paid far larger salaries than the wage of the laborers, so that they have not the same

need of an additional distribution that the poorly paid laborers have; and every humane consideration would dictate that these highly paid executives should not also receive the lion's share of any excess earnings of a business above the current dividend rate. It may make for the wealth of nations, but it does not make for the welfare of nations to heap luxuries upon some, while others do not have the necessities of life.

In attempting to arrive at a fair method for the limitation of the total earnings of management a careful distinction should be drawn between the investments of capitalists and their services as managers. In cases where capital and management are completely separated; that is, where the owners of an enterprise employ executives for their ability exclusively, and these executives have no investment in the company or a very nominal investment in proportion to the size of the capital; it would seem to be a safe rule to allow the earnings of the management to be determined by competition through the law of supply and demand. In such a case the capitalists will not pay larger salaries than necessary to attract men of the necessary calibre, ability and experience.

In the more frequent case, however, where the executives are large or majority stockholders, in which case they fix their own salaries by their voting

power, there are two methods which might be followed in order to limit the earnings of such executives to a fair amount. They might (a) either be restricted to the salaries paid executives in a similar situation who have no stock interest in their companies; or (b) the maximum earnings of the management of a business might be restricted to a fixed percentage of the total earnings of the business, say to 10%. The latter standard would be more certain and could be more easily applied by law; but it is recognized that in small companies it might not allow a sufficient amount for management to obtain the necessary grade of men, and in the case of very large companies it might be considered as allowing an exorbitantly large sum for management. The former standard is more flexible and is theoretically more nearly just, but it is doubtless much more difficult of application by any public authority.

Owing to the very general identity of capital and management in the same persons, organized labor has mentally classed management with capital and has therefore been rather antagonistic to the high salaries which are usually paid to executives. Labor has not fully appreciated the high order of skill required for the successful management of a large modern industry, the skill required not only in the field of production but also in the field of commerce

for the selling of the product and in the field of finance for the financing of the industry. If labor will carefully separate the two distinct factors of investment in an enterprise and management of that enterprise, even though they are frequently found merged in the same persons, and will class only the investment as capital but the management as labor, which it truly is, a great step will have been taken to clarify the problem of establishing harmony between labor and capital. The large earnings of management are returns for labor, not returns upon capital, and these returns for brain work should be clearly distinguished from the returns upon dead capital, which should rightly be limited to a fair current rate for that commodity in the open market.

CHAPTER X

Relative Drawings Adjusted by Competition

While the rules for the division of the product of industry between capital and labor as laid down in the preceding chapters would assure a fair but limited return upon capital, which would of course be divided among the individual stockholders in accordance with the size of their individual investments; and would also assure to the workers in an enterprise *as a body* the full social value of their labor; these rules afford no guidance for the determination of the relative amount of the total return to labor that should go to each individual worker. What is the relative worth of each man's work and the just relative wage that should rightly be given to each of the workers of many different grades of skill, of experience, of strength, of dexterity, that are employed in a great modern industry? With the vast complexity of modern industry, in which many hundreds of workers may supply varying amounts of labor upon a single selling unit, such as

a great locomotive or an ocean liner, how shall the relative wages of each branch of work and of each individual workman in that branch be justly determined?

Distinction Between Drawing Account and Final Earnings

In order to solve this problem it is necessary to keep clearly in mind the distinction which has been made in previous chapters between the preliminary wage, or the drawing account, of the worker and his final earnings, or complete wage, as determined by the addition to his drawing account of his share of the excess earnings of the business at the close of the year. The principle is exactly the same as the division of profits among partners in a firm. The partner's total earnings from his work, as distinguished from his return upon his invested capital, are made up of his drawing account during the year, plus his share of the excess earnings above the agreed rate of dividend upon capital.

Bearing this distinction in mind, it will be seen that, if the relative preliminary wage or the drawing account of the various workers in an enterprise is fixed, that automatically determines the relative share of each worker in the division of the excess earnings for the year, according to the rule that these excess earnings should be divided among the

workers in proportion to the salary or wage of each worker.

Relative Drawings to be Determined by Workers' Free Preferences

The problem, then, narrows down to finding the best method by which the relative current wage, or what is here called the drawing account, for each class of work may be determined in a manner that will appeal to the workers as fair. This can best be done by giving every worker a free and untrammeled choice of the class of work that he wants to do, of the place where he wants to work, and of the circumstances surrounding his employment.

There are a great many things to be taken into account in determining the relative pay that, in the minds of the workers, is proper for different kinds of work; such as the physical lightness or heaviness of the work, the agreeable or disagreeable surroundings, the variety or monotony of the work, the honor or the contempt attached to the work in popular opinion, the prospect or the lack of prospect for advancement in pay, prejudices or superstitions in the popular mind regarding the various forms of employment, etc. Each of these different circumstances attached to and surrounding the various classes of work appeals with varying degrees of force to different people, so that the

* Everybody would pick the [illegible] job

work that one man would accept at a very moderate wage another would not accept for a much higher wage. The mental attitude, the psychology, of each individual worker creates for him a different relative value among the different classes of work than the relative value among these same classes of work that exists in the estimation of another worker. There is, therefore, only one method by which every worker can be fully satisfied that the work upon which he is engaged is properly paid relatively to all other classes of work; and that is, to give him perfect freedom to transfer his efforts to any other class of work that in his estimation is relatively better paid than his present work. The individual judgment of each worker in this way decides for him what he considers the true relative value of his work compared with that of all other workers; and as the mental attitude and preferences of each worker enter into the question of what is, for him, the relative desirability of different kinds of work, the relative wage of each class of work is finally determined by the relative preferences of the workers themselves for the various classes of work.

A Scientific Wage Versus Competition

Even if it could be scientifically proven that the value to society of job A is twice the value of job

B, and that therefore their relative pay should be as two to one; still, if job A is far more agreeable in any one of the many respects mentioned in the previous paragraphs, while job B is especially unattractive in these respects, it may be necessary for job B to pay as much, or even more than job A, in order to attract the number of workers necessary in that class of work, while the competition of workers for the agreeable job A may cause them to underbid each other for that class of work, because too many workers are trying to crowd into it. In other words, even if a strictly scientific wage could be determined in the present extremely complicated state of big business, where hundreds of separate operations merge in the production of a single finished unit, it would be immediately upset by the competition of workers for one class of work, or their aversion to another class. In the end the only relative scale of pay that would satisfy all workers in industry is that which results from the free play of the individual preferences of each worker in selecting his own work in accordance with his own idea of the most attractive pay for the amount of work that must be done for that pay. If any worker is not satisfied with the relative pay of his job as compared with another job, he is free to enter the second job or any other job that he considers properly paid. If many workers prefer

one class of work, they will bid down the wage on it; if they dislike another, the employers will have to bid up the wage on that class, until demand and supply meet and balance; that is, until labor is satisfied that the relative size of the pay of all classes of work is just. This is as near to a scientific wage as it is possible to arrive, because it takes into account not only the relative skill, strength and training required for each class of work, and its relative worth to society, but also the actual judgment of the worker most concerned, as to its fairness.

Under the Drawing Account Wage Plan Competition Would Not Depress Wages, But Would Distribute Workers Where Needed

The determination of the relative drawing wage of workers in all industries by this free competition, with the further proviso for the distribution of the surplus earnings of a business as previously outlined, would not have the effect of grinding down wages below a living minimum. This competitive system would have no effect whatever upon the total earnings of labor, but only upon the distribution of those total earnings among the individual workers. The total earnings of labor would be all that a business earns, less a reasonable rent for the capital employed. Capitalists would not have the

same motive as they have under the present wage system for holding wages down to the lowest possible figure, because they would be aware that they could not obtain more than a fair dividend upon the capital employed in any event, and therefore holding wages to an abnormally low figure would only result in a correspondingly larger distribution of surplus earnings to labor at the close of the year. Labor would get all the earnings above the fixed dividend in any event, whether in the shape of the preliminary drawing account or in the shape of a final distribution of excess earnings. The only thing that would change the total amount that would go to labor would be a change in the total earnings of the enterprise. The capitalists would not fix the workers' final earnings. The workers themselves (the management and the manual labor) who operate the business would be wholly responsible for the total amount that was available for their pay. The workers would get exactly what they earned; that is, all that they could make the business produce, less the hire of the capital employed. Under the plan of a drawing-account wage labor would employ capital, instead of capital employing labor. The living human beings would employ the dead commodity, allowing it its just rent or dividend as a commodity. The competitive preliminary wage would, therefore, merely

have the effect of distributing labor where it was most needed by society, but would have no effect in depressing the total earnings of all the workers in an enterprise.

Should There be a Legal Minimum Wage?

The difficulty of applying the principle of the minimum wage by law has been previously discussed. It will be readily seen that, under the drawing-account plan of wages there would not be the same need for such protection for the workers as there is under the present system, by which an employer is permitted to employ a needy worker at an extremely inadequate figure and is permitted to retain all the profits derived from that worker's labor above that fixed sum, even if these profits should afford him a dividend of 100%, 200%, or more. Under the wage system here outlined the employer does not determine the final earnings of any employee. He can merely determine the relative earnings of the workers. The final amount of their earnings is determined by the final year's profits of the business. A business that could not earn enough to support its workers would gradually find itself unable to hold them in competition with other enterprises, and it would therefore be obliged to sell out or to merge with some better managed or larger company that could earn enough

to hold the men's services. At present a business that fails year after year to earn a minimum or normal dividend is eventually discontinued or merged with a more successful concern. In the same way, with labor as the residuary legatee of industry instead of capital, any business that year after year failed to afford its workers a minimum or living wage would be compelled through a dearth of employees to discontinue business or to merge with some more successful enterprise. The standard of living is so extremely fluctuating, the minimum needs of the various workers are so widely different between single persons and heads of families, the degrees of handicaps vary so widely from the normal to a state of complete incapacity, that a legal attempt to fix a universal minimum wage would do more harm than good to the workers, and under the system of payment here outlined it would appear to be practically unnecessary for the workers' protection.

CHAPTER XI

WORKERS' AUDITORS

Possible Disputes Reduced to Questions of Fact

If the two principles thus far elaborated, that of a fair but limited return upon capital, and that of the division of all surplus earnings among the workers in proportion to their salaries or wages, are conceded to be a just basis for the division of the product of industry between capital and labor; it follows that the only remaining causes of friction between the two on money matters are reduced to *questions of fact.* The first fact about which there might be dispute between labor and capital is as to what is at any given time a fair rate for capital. This fact it has been proposed to determine, by the method outlined in Chapter VIII, in accordance with the current price for money in the open money markets of the world. The second fact about which labor and capital may dispute is as to what is the actual amount of the surplus earnings above the dividend of a particular company in any particular

year. This fact it is proposed in this and succeeding chapters to determine by giving the workers permission by law, in any business of considerable size (say one employing one hundred or more), to employ competent auditors who may have as full and free access to all the books, records and transactions of the business as the auditors of the capitalists; and by an arrangement to arbitrate through certified public accountants any questions of accounting upon which the workers' auditors and the owners' auditors cannot agree, reserving for either side a final appeal to the courts of the land on questions of fact or of equity.

Publicity of Accounts as a Solvent of Industrial Disputes

The right of the workers to be fully informed regarding the earnings of the business would follow naturally in a system such as is here advocated, in which the final earnings of the workers are regulated in accordance with the earnings of the enterprise in which they labor. The workers by this plan have a position like that of the holders of common stock, while the capitalists are put in the position of preferred stockholders or of lenders of money to the enterprise.

The workers' clear knowledge of the earnings of the business, certified by an auditor employed by

themselves and under their complete control, would in itself be a great solvent of industrial disputes. Generally the workers must simply guess at the prosperity of an enterprise or industry and at their fair share in that prosperity, whereas if they had the full facts before them as to the earnings of the business or industry, their leaders would be in a position to know pretty closely what wages could and should be paid, and the capitalists also would hardly dare to declare exorbitant dividends while paying inadequate wages.

Under the present system, by which a fixed wage is paid to labor, while all the remaining earnings go to capital, it has always been the policy of capitalists to preserve the utmost secrecy regarding the profits of the business, for fear the workers would demand a larger wage, should the full profits be known to them. Under the method of payment here proposed, however, capital would not have this motive for secretiveness, because its return would be fixed in any event. Rather would capital have the opposite motive to let the workers freely and fully know the earnings of the business, for the reason that it would be as much to the workers' interest as to that of the capitalists to see that these earnings are as large as possible. The larger the earnings the greater the margin of safety for the capitalists' dividends, but also the larger the earn-

ings the larger the workers' share in the distribution of the excess earnings above the dividend. It will thus be seen that one of the goals of organized labor,—full publicity, so that profits and wages may be fully known—is thus made desirable also for the capitalists, as well as for the workers.

Hidden or Diverted Profits

At this point the thought will doubtless come to any practical financier or financial manager, that it would be possible for the capitalists to defeat a fair distribution of excess earnings to the workers by "plowing in" all surplus by means of excessive depreciation accounts, hidden reserves, plant extensions, investments in subsidiary or affiliated concerns, etc.; or, worse than that, that it would be possible to divert all excess earnings to outside concerns owned by the capitalists and supplying raw materials or selling the finished product of the company in question.

In answer to the first of these difficulties it may be said that the capitalists could have no motive for hiding profits, if it were provided that only a fixed dividend on the capital of a business could be paid in any event, and that such capital could not be increased except by the investment of actual additional cash by the capitalists. If all surplus earnings belonged to the workers and not to the

capitalists, the only motive the capitalists could have for not paying out such surplus would be to strengthen the business and safeguard their fixed dividends, and these objects would coincide with the interests of the workers also. The workers' auditors would have just as strong a motive as the capitalists' auditors to set up proper reserves to insure continuity of employment, maintenance of wage scales and regular payment of dividends, so that these would not accumulate in arrears, thus postponing the further sharing of excess profits by the workers. There should be no more conflict of interest on these points between the auditors for labor and the auditors for capital than there is at present between the common stockholders and the preferred stockholders of a business. Their interests are identical.

The second difficulty, like all other cases of dishonesty, is not so easily guarded against. It sometimes happens at the present time that a few minority stockholders, who hold important official positions in a company, will organize a small outside concern to supply raw materials to or to market the product of the larger company; and by allowing their small auxiliary company to make exorbitant charges they milk the larger company of practically all profits beyond a meagre dividend. Under the plan here suggested, however, this diversion of

excess profits could be adequately guarded against, if the law strictly regulated the capitalization of all companies; demanding, as is now done with the banks, public utilities, etc., that the capital stock shall be actually paid in in cash and certified by public authority; and then if only a fixed dividend is allowed on that capital, it would be impossible for the capitalists to gain anything by diverting earnings from one of their companies to another. It is precisely to watch and prevent such tactics that the workers' auditors should have full access by law to all books and records of the business.

Shall the Workers Have a Voice in Business Policies?

It will be said, however, that this would not be auditing, but would be interfering with business policy; and we are thus brought to the question as to how far, if at all, the workers in a company should have a voice in determining the policies of that company. In examining this question it is well to make a clear distinction between business policies; that is, policies relating to purchases, sales, plant and equipment, financing, etc.; and labor policies; that is, policies regarding wage scales, hours and working conditions.

Although it is to the interest of both capital and labor that the business should be successful, the

control of business policies (that is, honest business policies, not fraudulent practices miscalled business policies, like that mentioned under the previous caption) should rest entirely in the hands of the owners of invested capital, for the reason that ownership of capital (unless it is inherited capital) is usually a sure indication of long experience with business and financial conditions, of ability to succeed, of thrift. All of these qualities are indispensable to guarantee the success of a business management.

On the other hand, under the system of wages here advocated, labor could be safely given a substantial voice in deciding questions regarding hours of work, the relative and absolute scale of wages, and the various conditions under which the workers labor. To illustrate, if the workers' earnings were finally determined wholly by the amount of profits earned by the business, the workers would not have the same motive that they now have to make the hours of work as short as possible, but would be willing and anxious to work a number of hours that would be reasonable in each industry, with due regard to the excessive or light character of the work; because the longer they worked (other things being equal) the more they would make. They would be practically in the position of a man who is working on his own account, not on a fixed wage.

In a similar manner the workers' demands regarding comfortable working conditions would be very apt to be only reasonable, if they knew that all money spent in this direction was just so much taken out of the surplus earnings to be distributed to them at the end of the year.

On the question of wages, which under the system here set forth would mean the question of preliminary drawing accounts, it must be admitted that the authority of the workers to decide alone would lead to serious difficulties. The workers would be very apt to decide upon a scale of wages (preliminary drawing accounts) so high that not only would there be no surplus profits to be divided among them at the end of the year, but so high that there would be no possibility of ever earning even the moderate, fixed dividend on capital which the present plan contemplates.

It is for this reason that the previous chapter advocated that the question of preliminary drawing accounts, both relative and absolute, should be left to the free play of the law of supply and demand, which would determine the current going rate for each class of work. It was pointed out that the actual, final earnings of the workers were not fixed by the employers under the present plan, but by the annual earning power of an enterprise in which the workers were employed; so that, no

matter what the preliminary wage might be, in the end the workers would get all that the business earned except the fair rent of the capital.

There could, however, with great advantage to industrial harmony, be an automatic arrangement by which, when the surplus earnings of a business for any year exceeded 20% of the pay-roll, there would in the following year be a 5% increase in the preliminary drawing accounts of the workers; and, on the other hand, when the business failed to earn its fixed dividend, the following year there would be a reduction of 5% in the preliminary drawing accounts of the workers. This would have the double advantage of not giving too great a preference to dividends over wages, and of affording a clear rule, understood in advance by both labor and capital, for effecting gradually the necessary adjustments in wages. While it would seem to put a "stop-loss" on dividends, while leaving the possibility that wages might go down to a very low figure; the actual result would be that new workers would avoid a business that could not pay the current rate of wages and earn the current rate of dividend; and such enterprises, not being able to obtain the necessary labor, would be obliged to merge with or sell out to better managed enterprises. The elimination of the marginal producer is always a painful economic operation, but it is

believed that the scheme here suggested would cause as little suffering to the workers as is possible in eliminating a business that does not pay.

Workers' Increased Investment Possibilities Under the Drawing-Account Wage

In discussing the voice that labor should have in the determination of both business policies and labor policies under a system of drawing-account wage payment, it is well to note here that the larger share of earnings that would go to labor under this plan would afford the possibility of greatly increased investments in industry by the workers. Under this plan of payment labor, with skillful leadership and proper organization, could in a reasonable number of years obtain a controlling interest in practically all of the large industries of the country and could finally obtain complete ownership of them; which, of course, would give labor authority to determine not only labor policies, but business policies as well. Here is another goal toward which trade unionism should strive.

This complete control, and finally complete ownership, of the means of production by the producers, not through confiscation in any form or under any guise, but simply through the wise investment, under able labor leaders, of the surplus earnings of industry distributed to the workers under the

drawing-account wage plan, is not a far-off and impractical dream. In a later chapter on the advantages of the drawing-account wage the earnings of some of the leading companies in the United States will be analyzed, to show the number of years it would take for labor to acquire control through investment.

Before discussing in the next chapter the methods of adjusting any differences between the workers' auditors and the owners' auditors, it is well to note here that with the ever-increasing investment interest of labor in the industries which would result from the drawing-account wage plan, the possibility of disagreement between the two classes of auditors would diminish. As the workers gradually acquired control of industry through their investments, the two classes of auditors would gradually come to be employed by and responsible to identically the same people.

CHAPTER XII

ARBITRATION OR ADJUDICATION OF DISPUTES

In the preceding chapters there has been unfolded a method of division of the profits of industry according to the rule of reason, in contrast with the present method of division of these proceeds in accordance with the rule of force. This rule of reason affords a sound basis for the arbitration or adjudication of differences between labor and capital and removes the very natural objection which exists under the present wage system to compulsory arbitration on the part of both labor and capital.

Disagreements on Questions of Fact Only

If a fixed rate of dividend allowable upon capital is determined annually by public authorities selected for that purpose, this rate of dividend being controlled neither by capital nor by labor, nor by the public authorities that declare it annually, but solely by the value of money in the open

money markets of the world; then the only possible questions that can arise between labor and capital are such as relate to the amount of the total earnings of the business for the year, or such as relate to necessary reserves for depreciation, depletion, losses, etc. The first and by far the more important of these two classes of possible disputes relates to questions of fact, while disputes under our present wage system relate to questions of demand.

To illustrate the difference between the two kinds of disputes, let us suppose that two men live together in the same house. If a disagreement arises between them as to the share of the floor space that each should have for his own use, the dispute might be interminable unless one or the other should sacrifice part of his demand. On the other hand, if a certain division of the floor space had been agreed upon—say half for each,—and a disagreement arose as to what was half of the floor space, the dispute could be readily settled to the complete satisfaction of both men by an actual measurement with a ruler. The first is a disagreement as to wishes or demands; the second, a disagreement as to fact.

Disagreements on Accounting Methods

It is true that, even in the latter case there might remain disputes as to whether the floor space in

closets and useless corners should be included in the measurement. Such disputes would be equivalent to differences between the workers' auditors and the capitalists' auditors on questions of reserves, depreciation, depletion, losses, etc. Between competent certified accountants such questions could not possibly involve any amount that would materially change the rate of distribution to labor of excess earnings; and for the sake of the peace and welfare of society in general it would seem proper for the nation to compel the submission of such accounting disputes to arbitration or adjudication, without a lockout by capital on the one hand or a strike by labor on the other.

It is to be noted carefully, that it would be equally to the interest of both labor and capital to have sound and conservative accounting methods followed that would guarantee the stability, the safety and the evenness of earning power of the business. There would be no motive for the capitalists' auditors to insist upon setting up unnecessarily large reserves, if it were clear that these reserves could not be used to increase dividends or capital stock outstanding, but would in any event remain the property of the workers, whether distributed at once or held temporarily to insure the safety of the business. In like manner labor, if under wise leadership, would not object to the set-

ting up of reasonable reserves to guarantee not only the safety of the business and the safety of dividends on the capital, but also to avoid too great fluctuations in the annual distribution of excess earnings from year to year to the workers. The accounting disagreements between labor and capital, therefore, would not be likely to be bitterly fought disputes, but rather honest differences of opinion as to what constituted the best accounting practice. Such questions could very properly be submitted by both sides to the arbitration of high class public accountants selected by themselves.

All necessary adjustments in wages would be automatically and justly determined by the earning power of the business, as outlined in the previous chapter; and as the actual facts as to this earning power would be fully known to the workers through their own auditors, no possible ground for dispute could arise between labor and capital in regard to these adjustments, except again disagreements as to accounting methods. Under the present system of wage payment every downward adjustment of wages, however necessary and unavoidable, is regarded by labor as an attack upon the workers' standard of living; and every demand for an upward adjustment of wages is regarded by capitalists as an attack upon capital's right to a fair dividend. The whole mental attitude of the two

parties toward the division of the product of industry is one of fighting, of demanding the largest possible share for each. There is no basis of reason upon which two conflicting demands can be arbitrated or adjudicated; they can be reconciled only by the sacrifice or the defeat of the overlapping demands. Questions of accounting methods, on the other hand, can always be settled by methods of reason, either by arbitration or adjudication.

Regulation of Accounting Methods by Law

In cases where methods of accounting continued to furnish ground for disputes between labor and capital, they could be settled by legal enactment. This is done at present in various industries. In the entire railroad system of the United States, which is the largest in the world, the methods of accounting are regulated and determined by the Interstate Commerce Commission, an impartial public authority. This is a necessary consequence of the law giving the Commission authority to regulate the rates charged in a manner that will produce a fair return upon the invested capital. The net profit shown being largely determined by the accounting methods used, the reserves set up, the betterments charged to current expenses, etc., the Commission could not well restrict the railroads to a fair return upon invested capital without also

having the authority to lay down a standard accounting system to be followed by the companies.

In the banking field the Comptroller of the Currency in America has authority to call frequently for a balance sheet from all the national banks in the entire country, and also to examine their accounts in detail through a system of national bank examiners (who are auditors on behalf of the depositors and the public, somewhat similar to the auditors on behalf of the workers advocated in the previous chapter). As a necessary consequence of these powers he also possesses a large share of authority in regulating the accounting practices of the national banks, determining under what circumstances doubtful assets should be reduced or charged off, etc. The same regulation of accounting methods by public authority in the case of state banks and trust companies is exercised in each state of the federation by the state banking departments.

The Federal Reserve Board in the United States exercises a certain amount of regulatory authority even over the business policies and practices of the member banks, as far as they affect the common welfare of the country. It exercises a very important power over the accounting methods of the member banks, whenever these banks apply for credit at the federal reserve banks.

In public utilities, also, such as water companies,

gas companies, electric companies, street railway companies, etc., there is in practically all states a public body with authority to inspect and regulate the accounting methods of these companies. The theory is, that as the companies are given a monopoly by public authority, they should be restricted in their charges to rates that will produce a fair return only upon the invested capital; and in order to determine that rate accurately and to avoid abuses in accounting, such as extensions of plant out of earnings, etc., the public regulatory body must have authority to impose sound and honest accounting methods.

Appeal to Courts

The only two classes of disputes between labor and capital, then, that are possible under the drawing-account wage payment are such as relate to the amount of the annual earnings of a business and such as relate to the methods of accounting used in the determination of these annual earnings. The first class of disputes are disagreements as to facts, and if these disputes cannot be settled privately through arbitrators selected by the workers and the capitalists, society should require by law that they be submitted to the courts of the land without fighting, either in the shape of a lockout or of a strike. A thorough trial in court would estab-

lish the facts, but a fight would not establish them. The repercussions of industrial strife, whether the aggression be made by capital or by labor, are so wide and so damaging to the general welfare of the nation, that society is justified in demanding that questions of fact should be submitted to adjudication by the courts, in the same way that society requires that a question of the damage resulting from a breach of contract be submitted to the courts and not fought out by the contestants by methods of physical violence. A question of fact is a justiciable question, and for the sake of the general peace and prosperity of the community, society should insist that it be submitted for peaceable adjudication, if the parties cannot agree otherwise.

Legislation to Settle Accounting Policies

In regard to the second class of possible disputes, those relating to accounting methods, it must be admitted that questions of accounting policy involve intricate problems of equity, and it would frequently be very difficult for a court to decide questions of this nature. While many of the minor points involved in these disputes could be settled, as indicated above, by public regulatory bodies with authority to require standard accounting methods, there might still be questions of this kind that were of such importance and that caused so much indus-

trial trouble that the only way to deal with them would be on the floor of the legislature, as is done in all other instances where the rights, liberties or pursuits of citizens conflict and cause friction, strife or violence. There is just as full justification for the legislature to lay down the rules for the division of the product of industry between labor and capital as there is for its laying down the rules for the observance of contracts and the penalty for their breach.

Lockouts and Strikes Could Be Forbidden

Dividends and wages, under the system here outlined, being adjusted automatically, and the only questions regarding them that could arise between labor and capital being questions of fact, the nation could very properly insist that these questions should be settled by orderly court procedure, and not be economic warfare. Both lockouts and strikes could be forbidden as conspiracies in restraint of trade. The right of the employer to dispense with individual workers or the right of individual workers to quit would, of course, not be affected; but the law would forbid only the attempt to force the employer's view in a dispute by means of a complete lockout, or the attempt of the workers to force their view by a complete stoppage.

It will be noted that this discussion has related

mainly to questions of dividends and wages and has touched very lightly upon questions relating to the hours and conditions of labor. It may be well to repeat here that this is done, because it is believed that disagreements as to hours and conditions of labor would be very much softened under the system of drawing-account wage payment. The workers would not have the same motive that they now have for demanding the shortest possible hours, when their earnings depended entirely upon what they themselves produced above the fixed return upon capital; and, on the other hand, the capitalists would not have the same motive that they now have to make the hours of work as long as possible, if they knew that the longer hours would not add to their fixed dividends, but would only increase the distribution of excess earnings to the workers. In the same way the reader will readily see how disputes regarding expenditures to improve working conditions, such as light, sanitation, safety, etc., would be softened or removed under a system whereby the workers themselves pay the bill out of the excess earnings, and not the capitalists.

The Question of an Industrial Government

When compulsory arbitration or adjudication of industrial disputes is advocated the question natur-

ally arises whether it would not be wise, under our modern system of representative governments, to have the representation either wholly or partly according to industries, instead of solely in accordance with the geographical distribution of the population. Two of the great nations of Europe are now making experiments with industrial government. In Russia the representation in the government is not merely wholly by industries instead of according to population, but in the representation of industries in the Soviets only labor is represented and capital has no voice. The Russian government, therefore, is an attempt to solve the problem of industrial relations by the complete domination of labor over capital. The government, as the Russian leaders themselves call it, is a "dictatorship of the proletariat," or of the workers.

The Soviet leaders have found, however, that workers alone cannot conduct industry. They require capital, and the Russian authorities are at present using every possible means to induce capital to enter the country, either in the form of commercial credits, long term loans, or investments. To this end Russia is making concessions to groups of foreign capitalists. In short, Russia has found that industry cannot be conducted by the complete domination of labor, but that a method of cooperation between labor and capital must be found

before economic recovery and prosperity can be realized.

The Russian leaders have also learned that they made a mistake in banishing the technical skill of management from the country. Labor without skilled management and direction is totally incompetent to organize and operate great, complex, modern industries on a large scale. This mistake, also, the soviet authorities are earnestly trying to remedy by inviting technical and engineering skill from other countries, and by offering concessions to foreigners which will bring competent management into the country. In short, Russia has learned from its experiment that there are, not one, but three essential elements in modern industry,—labor, management and capital, that none of the three can be dispensed with, and that a method must be found by which the three can co-operate in harmony and with justice to each.

In Italy the experiment in industrial government has taken a different form. If the Russian form of government rests upon the complete domination by labor over capital, the Italian fascist government rests in a large measure, although not wholly, upon the complete domination by capital over labor. Mussolini has been shrewd enough to see that, if labor cannot do without capital, neither can capital do without labor. He has therefore endeavored to

have both equally represented in the government. The Italian Senate is being converted into a chamber representing industries equally by workers' delegates and by capitalists' delegates; while the Chamber of Deputies is intended to represent the nation as a whole, or (looked at industrially) the consumers. With this governmental machinery for developing industrial law Mussolini has insisted that all disputes between capital and labor shall be submitted to special industrial courts, so as to avoid strikes or lockouts and preserve industrial peace and prosperity.

Danger of Increasing Industrial War to Civil War

The world is watching these two experiments in industrial government with keen interest. While impartial observers have felt that Russia is moving toward a more practicable industrial régime, with the abolition of its first form of individual-factory-unit communism, and its relinquishment to private initiative and capitalistic operation of a large part of the small manufacturing and of domestic trade; it is still very doubtful whether the present form of state socialism, or state ownership and operation of heavy manufacturing and state monopoly of import and export will prove as efficient and satisfactory as private ownership and operation under proper

governmental regulation. It is also still too early to say whether permanent industrial peace will be possible under this system, by which the workers, while nominally the rulers of the country, virtually become the employees of the state; and, as a result, a great strike would automatically become a revolt against the government. By making the government the great capitalist Russia is incurring the danger that, should labor become widely dissatisfied with its economic conditions, its struggle against the government to improve these conditions would be civil war; and, if successful, would mean the overthrow of the government.

This danger of increasing industrial warfare to civil war, while inherent in the Russian method of making the state the great capitalist and the masses of laborers employees of the state, is still more likely to occur under the Italian system, which endeavors to balance capital and labor in one branch of the legislature, while reserving the other branch for public or consumer representation. Should capital and labor reach a deadlock in the industrial chamber upon a vital subject, it is likely that the difference would be fought out, not by an economic strike or lockout, but by calling upon the armed forces of the state to take sides in the dispute. And if, in the Senate, the representatives of capital and of labor should unite to exploit the pub-

lic, there might well result a deadlock between the two chambers which would paralyze the government and would again incur the danger of raising an economic dispute to the stage of a civil war.

CHAPTER XIII

ADVANTAGES OF THE DRAWING-ACCOUNT WAGE

The plan for establishing harmony between labor and capital which this third part of the present book proposed to set forth has now been explained in detail. It is designated as the drawing-account wage. Before discussing the advantages of the plan and the objections to it, it may be well to have before us a clear summary of the system. What, then, is the drawing-account wage plan?

What is the Drawing-Account Wage Plan?

It is as follows:

1. Capital is entitled to a fair return for its use, and to no more.

2. This fair return is determined by the rates for money in the open market, and should for each industry be about 2% above the average yield of bonds in that industry.

3. This average annual yield of bonds for each

industry should be determined by public authorities elected for the purpose; and the dividend thus automatically arrived at, being limited, should be cumulative.

4. All the remaining earnings of industry rightly belong to those who operate with the capital, management and workers.

5. As the total remaining earnings cannot be determined until the close of the year, a preliminary salary or wage, called a drawing-account wage, should be paid weekly or monthly, and the excess profits after the dividend has been paid should be distributed among the workers in proportion to their wages or salaries at the close of the year or through the following year in periodical instalments.

6. Capital and management being frequently represented by the same persons, who could thus as voting capitalists divert all the excess earnings to themselves in the capacity of executives, the total earnings of management should be limited, in companies employing one hundred or more workers, to 10% of the total earnings of the business. This limitation relates to their earnings as workers only, not to the dividends upon their invested capital.

7. The total return to labor being thus determined by the actual earnings of the business, the

relative amount of preliminary or drawing-account wage for each class of workers should be left to the free and untrammeled play of supply and demand.

8. If in any year a business should earn excess profits above dividends equal to a 20% or larger distribution to labor, the following year preliminary wages should be raised 5%; on the other hand, if in any year the business failed to earn the fixed dividend allowed, the following year preliminary wages should be reduced 5%.

9. The workers should be allowed to have, in all companies employing one hundred or more workers, an auditor employed by themselves who should have free access to all the books and records of the business, in order to assure labor that the accounting is fairly conducted.

10. In case of disagreement between the workers' auditor and the capitalists' auditor as to facts or accounting methods, the disputes should be submitted to the arbitration of certified public accountants selected by the respective parties; and, failing to arrive at a settlement by arbitration, the subject matter should be submitted to the courts of the land for decision.

11. The possible disputes being reduced to questions of fact or of accounting methods, lockouts and strikes should be prohibited by law and declared conspiracies in restraint of trade.

12. This drawing-account wage system should be made obligatory upon all industries employing one hundred or more workers.

Removal of the Antagonism Between Labor and Capital

What advantages would this system of industrial relations have over our present system? In the first place, it would substitute for the present rule of economic force by which labor and capital fight for their shares of the proceeds of industry, a rule of reason for making that division without fighting. It would substitute a just and equable method of determining the part of the earnings of industry that rightly belongs to capital and to labor respectively, and it would establish this industrial justice as the public law of the land. It would thus establish the reign of justice and law in industrial relations in place of the present reign of economic warfare, under which the rule is simply that "he may take who will and he shall keep who can."

Under the present system of industrial relations there is an irreconcilable antagonism between labor and capital, for the reason that, whatever is taken from the proceeds of industry by the one must necessarily reduce by that amount what the other can receive. Any increase of the pay-roll reduces by that amount the profits of capital, and

any increase of dividends upon capital reduces by so much the amount that can be put into the pay-roll.

And how, it may be asked, does the proposed system change or remove this irreconcilable antagonism between labor and capital? It does this by providing a method by which any increase of the earnings of industry equally benefits both labor and capital, and any decrease of those earnings equally harms both labor and capital. An increase in the annual earnings of a business under the proposed system automatically increases the wages of labor, and it also automatically increases the margin of safety for dividends and the assurance of continuity of dividends. And, vice versa, any decrease in the annual earnings of an industry automatically reduces the wages of labor, and also automatically reduces the margin of safety for dividends and the assurance of continuity of dividends. It therefore makes labor and capital pull in the same direction toward an increase of annual profits, and it harmonizes their interests in such increased profits. The present antagonism between the two would be replaced by co-operation between them, since the interests of both labor and capital would lie in achieving the same result. The drawing-account wage system, therefore, furnishes a basis for harmony between labor and capital and removes the basic source of friction between the two.

Abolition of Lockouts and Strikes

Under the present system of wage payments and dividends, in which the division of the proceeds of industry between the two is determined solely by the relative economic strength of labor and capital, when these two forces are equally well organized, the only method by which wages can be raised is by a strike and the only method by which they can be reduced is by a lockout. When either labor or capital is the more strongly organized, a precarious peace is maintained by the complete domination of the stronger over the weaker; but this lasts only until the opposing camp feels that it has overcome its inferiority of organization and fighting power, and then industrial war is resumed. The intervals of industrial peace are a truce between foes, not a hearty co-operation between friends.

Under the drawing-account wage plan the increase or the decrease of wages or dividends is made automatically and in accordance with justice and equity. Capital receives its full rental value at all times, as determined by the relative worth of money in the open financial markets of the world. When money is worth more, the dividend rate on capital is automatically increased; when money is worth less, it is automatically decreased. The earnings of labor automatically rise with the profits that labor produces, and they automatically fall with the re-

duction of the profits that it produces. Thus labor at all times gets just what it earns. The total proceeds of industry result from capital plus effort. Deduct the part that capital contributes to the result, and the remainder is the result of effort, that is, of management and labor. There is no need, therefore, of lockouts or strikes under this plan to effect the necessary adjustments of wages and dividends. They are automatically and justly regulated by the facts, and not by the power either of capital or of labor.

The fact which regulates dividends is the current rate for money, and the fact which regulates wages is the annual earnings of a business. The only disputes possible between labor and capital are thus reduced to questions of fact, instead of questions of demand and policy. Questions of fact can be arbitrated or adjudicated without the necessity of stoppages, either lockouts or strikes. In a legal phrase, they are justiciable and should be determined by impartial judicial investigation, which, indeed, is the only method by which they can be established. A fact cannot be proved by a fight. Nor can it be altered by a fight. The appeal to economic warfare, therefore, whether by capital in the shape of a lockout or by labor in the form of a strike, would under the plan here advocated be conclusive evidence that the aggressor sought, not

justice and equity, but conquest and domination. Not only would public opinion under these circumstances be overwhelmingly against the breaker of the industrial peace, but the nation could very properly demand by law in the interest of the public welfare that such disputes must be submitted to arbitration or adjudication without fighting.

Continuous Operation Made Possible Through Flexibility of Labor Costs

One of the greatest causes of anxiety to the workers and one of the fundamental causes of industrial friction is the uncertainty of employment. Under the present rigid wage system the manufacturer is seriously handicapped in selling his product by a fixed dead-line of labor costs, which strictly limits the reduction of his selling prices, when this is necessary in order to keep his product steadily moving into consumption. Consumer demand is not a fixed quantity; it varies greatly with the price of the commodity. An increase of the price not only restricts the consumption of those who can still afford to buy the commodity, but it makes the price entirely prohibitive to a section of the previous buying public. On the other hand, a reduction in price not only enlarges the consumption of present users of an article, but it brings the commodity within the reach of a large number of people who

previously could not afford to purchase any of it at all. As long as the producer can raise or lower the selling price of his product, he can always find the highest price level which will steadily market his entire output, and which will thus enable him to operate his factory fully and continuously.

Under the present system of fixed wages, however, the producer runs into a dead-line of labor costs which fixes the limit below which he cannot reduce his selling prices without serious loss; and, as no factory can continue to operate for any length of time at a loss his only alternative is to shut down his factory and force unemployment upon his workers. A stoppage of this nature, either partial or total, often occurs in industry when there is no dispute whatever between labor and capital. It causes grave distress to the workers none the less, and it is also a source of grave disagreement between labor and capital. The workers reason that, if they get only forty weeks' employment in the year, their wages must be increased to cover the period of unemployment, since they must live fifty-two weeks in the year. The employers argue that, if the selling price of the product is so high that it cannot be fully marketed, an increase in labor costs and hence in prices will still further reduce sales and will increase the amount of unemployment; and so the increasing unemployment and the increasing

wage rates will pursue each other in a vicious circle, until the workers have top wages and no work.

The drawing-account wage, however, gives producers far greater leeway in regulating the selling prices of their commodities, so as to fix them always at the point that absorbs the entire product and enables full and continuous employment. The situation would be similar to that of men engaged in manufacturing on a partnership basis, each of whom has a moderate drawing account for living expenses, and whose ultimate profit is determined and divided at the close of the year. The changes in the selling prices of their product which they found necessary to enable them to sell their entire product and keep steadily at work might make a difference in the end-of-the-year division of profits, but it would make no difference in their moderate drawing-accounts and in the continuity of their operations. Possibly the opposite fluctuations of selling prices in the course of the year would fairly offset one another. In any event they would have steady work and a steady moderate drawing account regularly through the year. They would keep on working, on the sound principle that "half a loaf is better than no loaf."

Similarly all staple industries could be kept in continuous operation; and while the workers' earnings would fluctuate with the general prosperity of

the consuming public and with the demand for their particular commodity, these fluctuations in earnings would be comparatively small, and the constant fear of unemployment that now haunts the workers would be removed. It is to be noted, also, that when the workers' earnings were reduced on account of the reduced prices for which their product could be sold, these reduced prices themselves would proportionately increase the buying power of the workers' wages; so that, while their nominal wages might be reduced, their real wages might be stationary, or might even increase.

If, in addition to the drawing-account wage, the nation should enforce the annual wage contract instead of a weekly, daily or hourly contract, thus preventing manufacturers from keeping "on call" a peak load of labor for an occasional and exceptional demand, and would establish a standard of hours beyond which an effective deterrent in the shape of overtime pay were added, thus preventing manufacturers from working their plants at night while the workers in other plants could not obtain regular employment even during the day; these measures taken together would produce a smoothness and a continuity of operation in our large industries which is at present lacking, and which would in the long run be to the best interest not only of labor, but of capital as well. For, while a

twenty-four-hour operation produces an extraordinary profit for the first manufacturers to adopt it, when all adopt it the result is a glutted market, irregular operation and employment, ruinous prices, and no profits for anybody. The cotton goods industry in some countries is in this position at the present time.

The drawing-account wage would not, of course, make possible continuity of operation in an industry whose product has become obsolete, and for which there is therefore no demand at any price. Painful as the process of change may be, such an industry must adapt itself to the permanent change in demand and must keep its product up to date. If the Studebaker Corporation had persisted in manufacturing wagons only and had not adapted itself to the manufacture of automobiles, it would be out of business to-day. No plan of wage payment could have kept it in operation on a large scale in the manufacture of the obsolete "buggy" of the last century.

Business Stability Would Result from More Gradual Price Changes

It is well known that, while slow and gradual changes in price levels can be absorbed in the operating accounts of business without seriously disturbing the stability and continuous flow of

trade and production, great and violent fluctuations of prices cause erratic and dangerous conditions for trade and production. The result is a series of booms in which labor is overworked, capital is in great demand and its scarcity causes high money rates; followed by a series of reactions or depresssions in which labor is widely unemployed and the demand for capital is so greatly reduced that a plethora exists with extremely low money rates.

The principal factor in determining prices is the cost of labor, including in this expression not merely the cost of the labor embodied in the finished product during the last stage of manufacture, but also the cost of the labor embodied in each of the raw materials which enters into the finished product. A wage plan, therefore, that is flexible and changes wage levels automatically and by very gradual steps will result in slow changes in price levels that will not upset business; while a wage plan that changes wage levels in large lump percentages that enter not only once into the finished product, but several times more through the manufacture of the raw materials used in that product, will result in rapid and violent changes in price levels that are ruinous to the smooth and stable flow of distribution and production. These violent price changes, if upward, cause the productive machinery of a country to be driven beyond the

limits of safety; and, if downward, to be entirely stagnant, causing widespread unemployment.

It is claimed that the drawing-account wage would automatically result in gradual and slow changes in wage levels, in accordance with the larger or smaller distribution to labor when the year's profits were ascertained. The largest possible change in preliminary wages contemplated by the plan is 5% in any one year; and this would occur only in the extreme instances in which the results of a year's operation either were so large that they afforded a 20% or larger distribution upon the pay-roll; or, on the other hand, when the earnings were so poor for the year that the moderate fixed dividend on the capital was not earned. And it is to be noted, also, that the fluctuations both in the final distribution to labor and through the possible 5% change in the preliminary wages would be determined separately for each company, and not country-wide for a whole industry. The result would be that, while some wages might fall, others might rise, and the general purchasing power of the wage earners would vary only little from year to year.

This greater evenness of the purchasing power of labor deserves closer consideration; for business stability depends not only upon evenness of production and absence of violent fluctuations in price

levels, but it depends fully as much upon the strength and evenness of the demand for the products of industry. And demand, when analyzed, will be found to rest basically upon the purchasing power of the great mass of the people in a country; that is, upon the purchasing power of labor, including of course labor on the farm. Even the demand of the rich for luxuries is affected by the purchasing power of the masses for the products from whose manufacture and sale the rich earn their dividends. The drawing-account wage would, therefore, stabilize not only supply and price levels, but would strengthen and equalize demand as well. It would largely reduce both the booms and the depressions of business and would greatly minimize the difference of business levels throughout the business cycles.

Greater Diffusion of Wealth Would Provide a Full Market for All the Products of Industry

One of the most tragic deadlocks that results from the present wage system is that situation in which manufacturers cannot produce the necessities of life, because they cannot find a market for their goods; while at the same time large numbers of workers cannot buy these necessities of life, because they cannot find work in the plants of these same

manufacturers. The goods cannot be produced because there is no one to buy them, and there is no one to buy them because the willing buyers are not earning the necessary money in producing the goods. The drawing-account wage would not only keep the purchasing power of labor far more constant than the present wage system does; but it would also largely increase the purchasing power of the mass of labor, if the workers should receive all the earnings of industry beyond a moderate fixed dividend upon capital. As the output of industry grew larger, and its profits increased in like measure, these increased profits would proportionately increase the purchasing power of the masses of workers, and so would afford a full market for the increased output of industry. The drawing-account wage plan ties together the output and the profits of industry with the earning power and the purchasing power of the workers. As the one increases, the other increases. High wages for the workers would result in large purchases by them, and thus production and consumption would be automatically kept in balance.

"The way to resume, is to resume," said a wise financier in the United States, when the subject of the resumption of specie payments was under discussion after the Civil War. And the same thing applies to continuous production and employment

in industry. Keep the wheels turning and the wages flowing, and you automatically create the purchasing power necessary to market the product and keep the wheels turning. The reason why this apparently simple formula cannot be followed in industry at present is, that wages are so totally unrelated to the profits earned by the business that the maladjustment between production and the purchasing power of the masses frequently becomes so great as to stop the whole machinery. If the driver and the reciprocating rod in a locomotive had no definite relation to each other, how long could the engine run?

Let us for a moment leave the cold realm of economic phraseology and translate the last few paragraphs into terms of human welfare. The greater diffusion of wealth which would result from the drawing-account wage plan, and the greater purchasing power of the workers that would go with it mean a higher standard of living for the workers throughout the country. This plan would enhance the welfare of nations, as distinguished from the wealth of nations concentrated in the hands of a few self-styled "trustees for its employment and investment." If a nation is happier when every man has a modest home of his own than it is when a few have palaces and the masses live in hovels, squalor and indecent congestion, then a

wage plan that diffuses wealth is better than one that concentrates wealth.

Diffusion of Ownership of Industry Would Increase the Welfare of Nations

Not only would the greater diffusion of wealth that would result from the drawing-account wage system increase the immediate purchasing power of the workers, and thus benefit industry and the whole nation, as outlined in the preceding paragraphs; but it would also enable the workers to make far larger investments and obtain a far greater financial interest in the industries in which they labor than is possible under the present system. The leaders in big business are almost universally agreed that, if the workers have a financial interest in their companies, friction between labor and capital is greatly reduced, the general welfare of the masses of workers is increased, their loyalty to their companies and their active interest in their work are stimulated, their stake in sound government and their patriotism toward their country are enlarged. All of these results greatly promote the safety and the welfare of nations.

While stock ownership by the workers is possible and is encouraged by farsighted executives under the present wage system, the extent of such stock

purchases is extremely limited, and the workers are not encouraged nor permitted to acquire more than a very small fraction of the total invested capital, so that their voice in the affairs of their companies is negligible and their returns from their investments constitute only a very slight addition to their wages. Under the drawing-account wage system, however, and assuming that labor is under capable and honest leadership, the workers could not only make very substantial investments in the industries in which they work; but in the course of a reasonable number of years they could acquire a controlling interest in the industries; and in a longer period they could reach, through honest thrift and investment, the goal which revolutionary labor leaders urge the workers to attain through confiscation,—the goal of the ownership by the producers of the tools, machinery, factories and materials with which they produce. In the proportion that the workers in an industry acquire the capital investment in that industry it is evident that friction between labor and capital must diminish. Should the workers in an industry acquire the entire capital invested in that industry that friction must cease entirely. A man does not quarrel with himself. It would be immaterial to the workers whether the proceeds of industry went into their left pockets as wages or into their right pockets as dividends.

Gradual Control of Industry Acquired by the Workers

Lest the claim here made that the drawing-account wage would make possible ultimate control of industry by those actively employed in industry—by management and labor—be considered utopian, it may be well to show from the published records of some of the principal companies in America, in what period of time control could probably be acquired by the workers.

For the purpose of illustration the companies selected are the United States Steel Corporation, General Electric Company, American Car and Foundry Company, General Motors Company, American Can Company, International Harvester Company, American Smelting and Refining Company, and National Lead Company. While the figures here used are taken from Moody's Manual for 1926, and the calculations have been carefully made by the writer, the result is to be accepted with caution and as merely approximately true, for the reason that the statistics used were not compiled with a view to the use here made of them and are sometimes not clear and full enough for absolute certainty in this calculation.

The United States Steel Corporation for the past six years has earned an average annual

excess above its dividends of 23.7 millions. This excess above a fair dividend the drawing-account wage system would give to the workers. Assuming that under wise leadership it were used to acquire control for the workers, the capital of the Company being 868 millions, in about 18.7 years the workers would obtain a half or controlling interest, and in twice that period the total ownership of the Company.

In the case of the General Electric Company the average excess earnings above dividends for the past six years (including surplus earnings converted into stock dividends) has been about 16 millions. The capital of the Company being 215 millions, about 6.7 years would be required to acquire a half or controlling interest, and about 14 years for total ownership of the company.

The American Car and Foundry Company's average excess earnings for the past six years have been 1.1 millions; its capital is 60 millions, which would indicate about 27.3 years for control and 55 years for total ownership.

General Motors' average excess earnings for the past six years have been about 10.6 millions; capital 368 millions, indicating control in about 17 1/3 years, total ownership in 35 years.

American Can Company's average excess earnings for the past six years have been 5.3 millions;

capital 82 millions, indicating control in 7.8 years, total ownership in 15½ years.

International Harvester Company's average excess earnings for the past six years have been about 2.9 millions; capital 162 millions, indicating control in about 28 years, total ownership in 56 years.

American Smelting and Refining Company's excess earnings for the past six years have been about 2.6 millions; capital 111 millions, indicating control in about 21.3 years, total ownership in 43 years.

National Lead Company's excess earnings for the past six years have been about 1.6 millions; capital 45 millions, indicating control in about 14.1 years, total ownership in 28 years.

None of these estimates assumes any saving and investment whatever by labor out of current or preliminary wages, but they simply show what results could be achieved, if the distribution of excess profits were invested by labor in obtaining an interest in the industries in which it is employed.

Increase of Productiveness of Labor, Hence of Real Wages

Under our present fixed wage system, with its concomitant of a weekly, daily, or even hourly employment contract, constant fear of unemployment haunts the lives of the workers; and this frequently induces labor leaders not only to try to restrict the

hours of labor as much as possible, in the hope of diminishing the periods of unemployment; but it also leads them to encourage or even to demand a low standard of production, in order to "stretch the work" over the longest possible period and avoid unemployment as much as possible. The result of both these policies is an increase of the price of the commodities produced which so narrows the market for them as to cause the very unemployment that the workers fear. And the more unemployment the workers experience, the higher pay they demand to compensate for it, the shorter hours they seek, and the more they practice "ca-canny" methods; all of which tactics tend still further to enhance prices and destroy the market for the commodities. It is the vicious circle again that leads to top wages and no work. In the meantime the prices of commodities rise to such a height that the purchasing power of money is greatly reduced, real wages in all fields of labor are greatly depressed, and the welfare of the whole nation suffers in the reduction of the standard of living that the masses can afford.

Under the drawing-account wage system the opposite results would follow. From the absence of the fear of unemployment on the part of the workers which would result from the continuous operation of industry made possible under this sys-

tem, from the knowledge that all excess profits of the business would go to the workers, and from the greater financial interest that labor would acquire in the industries through this system, there would naturally follow a far greater interest in their work, far more loyal effort, and a far greater productivity of the workers both in quality and in quantity of goods manufactured. This greater productiveness of labor would directly benefit both capital and labor, by increasing the margin of safety for dividends and by increasing the excess profits above dividends for distribution among the workers. It would also indirectly benefit the whole nation through the lower prices which would be necessary in order to market the increased output of industry. These lower prices would increase the purchasing power of money, and so would increase real wages in all fields of activity, educational, professional, artistic, journalistic, literary, religious, as well as the real wages of the workers in the productive industries themselves. The result would be a great advance in the welfare of the entire population of the country.

The Saving of the Enormous Social Waste of Unemployed Labor Power

If the drawing-account wage can, as is here claimed, automatically effect the necessary adjust-

ments of wages and dividends without the necessity of prolonged unemployment in the shape of strikes in order to raise wages, or of prolonged unemployment in the shape of lockouts in order to reduce wages and to restore dividends; the result will be an enormous saving of the present social waste of unemployed labor power. It is not necessary to repeat here statistics showing the amount of production that is lost through labor stoppages and capitalistic lockouts. The figures are available in the governmental labor departments of the various industrial countries. Two instances will suffice to give the reader an idea of the amount of the loss to the workers and the capitalists, and to society. The coal strike of 1925-26 in the United States lasted 165 days, and it was estimated that the loss was over $1,000,000 daily. In Italy, before the present interesting effort to harmonize labor and capital through governmental machinery was instituted, there was a loss of 500,000,000 working days in a single year, due to labor troubles.

Apart from the waste of labor power through strikes and lockouts there is an enormous waste through the frequent periods of unemployment which result from the present fixed wage system. While figures are not available to the writer to show the average, or so-called "normal" percentage of unemployment in the various industrial countries,

10% is probably not an excessive estimate of the wage power of the entire country that goes to waste through the inflexibility and maladjustments of our present wage system. In England there have been about two million workers idle for several years. This, of course, is an exceptional aftermath of the war, and seems also to be partly due to the encouragement of idleness by the payment of doles; it will nevertheless serve to call attention to the enormous national waste resulting from unemployment and the enormous amount of suffering that it entails upon the workers. If the drawing-account wage system can eliminate or largely reduce this evil, as is here claimed, it would result in a great improvement in our present economic life, which would be of special benefit to the workers.

CHAPTER XIV

OBJECTIONS TO THE DRAWING-ACCOUNT WAGE

Basis of Division False and Unjust

The first objection to the drawing-account wage plan by capitalists doubtless will be, that the basic principle upon which the division of the proceeds of industry between labor and capital is determined is false and unjust. The capitalistic conception may be best shown by a simple illustration. A man by his own unaided effort can carry from the forest one cord of wood daily. If he is supplied with a horse and wagon, he can bring in four cords. Therefore the man is entitled to one of the four cords as the result of his contribution to the joint production, and the owner of the horse and wagon is entitled to the additional three cords made possible by their use. Labor produced one-fourth of the result and capital three-fourths, and that is the just basis of the division of the proceeds.

Unfortunately, however, this argument works both ways. Karl Marx, in his *Capital,* although he

does not use this illustration, argues thus. The horse and wagon alone, without the man, would not bring in a stick of wood from the forest. The addition of the man's labor brings in four cords of wood. Therefore the owner of the horse and wagon is entitled to nothing, and the workman to four cords. Capital produces nothing. Labor produces everything. Hence, capital should receive nothing, and labor should receive the entire product of industry.

Labor without capital produces only a very small fraction of the product made possible by the addition of capital. Therefore, labor should receive only a very small share of the joint result, and capital should receive all the rest. That is the basic idea of capitalism.

Capital without labor produces nothing. Therefore, the entire product of industry is produced by labor, and labor should receive the entire product of industry. That is the basic idea of Marxism.

One is as false as the other. The capitalist fails to take into account that the moment labor employs capital; that is, the moment the unskilled worker uses complicated tools and machinery, and varieties of materials; he adds more than physical labor to the result. He becomes a more or less skilled worker, and he exercises more or less management in addition to manual labor. Take the woodsman as an example. When he uses a horse and wagon

in his work, he must understand the driving and care of horses, the proper loading, storage and greasing of the wagon, the character of the roads to be taken. In the complex system of modern industry the worker has far greater need than this for training, skill and management in his work. And while management is largely separated from manual labor in the personnel of a modern industry, it still remains labor, and should be sharply distinguished from the contribution to the result of capital alone as a dead commodity.

On the other hand, the worker's productivity being substantially increased by the use of the horse and wagon, the owner of these is entitled to a fair return for the use of them by the worker. The Marxian idea that all possessions that are used as capital were necessarily acquired by the unjust exploitation or the robbery of the workers is wholly untenable. While, of course, there is some wealth that has been unjustly acquired, capital as a whole is the result of thrift and saving on the part of hard workers who do not spend all that they earn. Capital is therefore justly entitled to a fair return for its use in industry, and to a fair compensation for the element of risk involved in such use. The drawing-account wage seeks to find a rational method for determining what this fair return

should be in each industry and for each year; and, by deducting from the total product of industry that return, to arrive at the actual, and therefore the just, share that labor contributes to the joint result.

Too Complicated to be Practicable

A second objection on the part of capital to the drawing-account wage plan will doubtless be, that it is too complicated to be practicable. While it is admitted that the plan requires careful and accurate accounting, practically the same accounting methods are used under present conditions in every well-managed large industry. The problem of industrial harmony itself is not simple; if it were, it would have been solved by society long ago.

There are only two facts that must be determined to make the drawing-account wage plan work smoothly and without disputes between labor and capital. The first is the actual annual profits of a business, and the second is the actual average yield of bonds resting upon the industry to which the business in question belongs. The determination of the first fact, the annual profits of the business, would require no more complicated nor any different accounting system, when the excess profits

above the annual dividend become the property of the workers, than is required when these same excess profits are carried to a surplus account that is the property of the capitalists. The same system of cost accounting can be used as is used at present, the same requirements for reserves against plant, depletion, depreciation, etc., would apply under the proposed system of wage payment as under the present one.

As to the second fact necessary for the operation of the drawing-account wage plan, the determination of the average yield of bonds resting upon each industry is a comparatively simple financial calculation that is constantly being made in the money markets at the present time. The frequently published index tables of the average price of a certain number of first-class railroad bonds, of second-class railroad bonds, of public utility bonds and of industrial bonds, while they give merely the average market price of securities resting upon these industries, they at the same time give the necessary data from which by a simple calculation the average yield of the bonds can be found. No financier of standing would consider it complicated or difficult to arrive very closely at the figure representing the average annual yield of bonds resting upon each of the principal industries of the country. And this figure would automatically de-

termine the annual dividend rate for each of those industries.

Judicial Decisions in Accounting Disputes Could Not be Enforced

The third objection on the part of capital to the drawing-account wage plan would probably be, that judicial decisions rendered in accounting disputes could not be enforced; that, while capital could be forced to accept court decisions, by means of financial penalties or fines imposed for its refusal to abide peacefully by such decisions without a lockout, labor could not be reached by fines or other financial penalties, in case it repudiated a court decision and called a strike in defiance of the decision. Capital would be effectively prohibited from enforcing its claims by a lockout, while labor would be free, if the decision of the court went against it, to defy the court and enforce its claims by a strike. If large numbers of organized workers refuse to work, no court or other public authority can compel them to work. The result would be that, when labor won on a disputed question of accounting methods in the courts, it would accept the decision, but when it lost it would enforce its view by a strike in defiance of the courts. In actual operation, therefore, the system would be totally one-sided.

In answer it may be said that, if wealthy capitalists could be forced to accept court decisions on disputed accounting questions through the application of a system of fines imposed for fighting and disturbing the economic peace; it is reasonable to suppose the poor workers would feel the force of fines at least as much in persuading them to accept court decisions on these matters of fact without fighting and disturbing the economic peace. The only question is, how could a fine be collected from the workers? Under the drawing-account wage plan it could be enforced and collected precisely in the same way that a fine against the capitalists would be collected. If a fine against the capitalists would have to be paid before a dividend could be declared, so would a fine against the workers before a distribution of excess earnings above the dividend could be made. In the one case, as in the other the funds of the guilty party would be attached. A threatened diminution of the distribution to the workers of 5%, 10% or more of their final earnings would have an effect fully as compelling upon the workers, to induce them to keep the peace and to submit their contentions to impartial court investigation, as would a diminution of the same amount in the dividends of the capitalists have upon them toward enforcing economic peace.

Labor Would Insist Upon a High Wage Before Dividends should begin, Even If They Should Never Begin

Capital will object further that, under the drawing-account wage plan, there would be a perennial source of disputes as to the point at which dividends should begin. Labor would insist upon a high wage before capital should receive anything, even if the scale of pay should be so high that there was no prospect that capital would ever get any return. In other words, labor would resent the idea that dividends should be preferred to any part whatever of the workers' wages. This basic principle of the system would immediately be repudiated in practice by labor. While this is undoubtedly a real difficulty, it will be recalled that the plan as outlined has not overlooked it. It is suggested that, when in any year the fixed and limited dividend is not earned, in the following year there should be a reduction of 5% in preliminary wages; and, if necessary, this should be repeated in succeeding years, the annual reduction, however, not to exceed 5%, until the business is on a dividend-paying basis. On the other hand, it will be recalled that when the dividend is amply safe, as shown by a 20% distribution of excess earnings to the workers, then the preliminary wage should be raised 5% each year, until the margin of safety is reduced to that figure. This

provides a rational and automatic method of making the necessary wage adjustments which must now be made by means of the economic warfare of lockouts and strikes, with their great loss of wages and profits, and their dangerous effects upon the whole economic and political structure of a country.

The result of this system of wage adjustments would by no means be a reduction of wages in poorly managed industries below the starvation point, in order that those industries might pay dividends. If at any time the 5% annual reduction should bring current wages in a company or in an industry below the open market competitive level, workers would be drawn from that company or industry, and it could not fill its ranks below the prevailing rates of wages. If the capitalists, on the other hand, found that they could not hold their workers and earn a dividend, they would be compelled to sell out or merge with some stronger or better managed company.

While it is of course obvious that the drawing-account wage plan contemplates a partial preference of dividends over wages, it is claimed that a full equivalent for this is given to labor, first by the absolute restriction of possible dividends to a moderate figure determined by impartial public authority, and secondly by giving to the workers all earn-

ings in excess of this limited dividend. It is confidently believed and has been demonstrated in the figures of leading companies given previously, that this plan would result in a far better return to labor than it receives under the fixed wage system at the present time. And what is clearly to the interest of labor would not be opposed or frustrated by shrewd and sane labor leaders.

Would Require Extensive Legislation and Governmental Control of Industry

It is a significant fact that, as a rule, capital is far more bitterly opposed to governmental "interference with business," as the capitalists are pleased to regard legislation on industrial relations, than is labor. For this reason the objection against the drawing-account wage plan, that it would require extensive legislation and governmental control of industry for its establishment, is treated here as the final objection on the part of capital, before passing to the consideration of the objections that labor may have.

While the final success or failure of any system of industrial relations cannot be fully determined until it has been tried, it is claimed that the proposed system possesses such advantages in the active competition for a market, that it could be successfully introduced by voluntary agreement, without any

legislation whatever, in a single company or in an entire industry.

If the system were introduced voluntarily, for instance, in a single large steel company, capital and labor would have to agree upon four points. First, on a disinterested financial authority to determine the average annual yield on bonds resting on the steel industry. Second, in case of disagreement as to accounting methods between the auditors of the capitalists and those of the workers, the two parties would have to agree to the decision of the disputed points by disinterested public accountants representing each side, who would, if unable to agree, be empowered to select a single authority to make the final decision. Third, labor and capital would have to agree upon the forfeiture of a fixed sum of money, in case of failure to abide by the decisions on dividends or on accounting methods, and resorting to either a lockout or a strike in order to gain their point by force instead of by judicial decision. Fourth, labor and capital would have to agree to submit the question, as to whether either party had made itself liable to a fine, to the impartial investigation and decision of the courts of the land, and to agree further that such fine should be enforceable by ordinary legal methods.

Let us suppose that the drawing-account wage system were thus voluntarily introduced into a

large steel company. Would that company as a consequence be better able to compete for business in the open market, or would it be handicapped? In the first place, it may reasonably be supposed that the production per man would be increased, if the workers knew that every additional dollar of earnings after the dividend had been met would be an additional dollar for them. Increased production per man would mean a reduced cost price of the selling unit, and this would give a great advantage to the company enjoying it over its competitors.

In the second place, the management would have much more leeway in regulating the selling price of the product, so that the market would at all times absorb the entire output, and so would make possible continuous, full operation. Under the present wage system the management is continually hampered in selling the product by its inability to reduce prices below the deadline set by fixed labor costs. As a consequence sales fall off, production must be restricted with its attendant unemployment, costs are increased by a diminished output to absorb a fixed overhead, thus further restricting sales possibilities, etc. Under the proposed wage system, prices could at all times follow the market demand, so that the full output would be at all times wholly consumed. It is well known that a reduction in price stimulates demand, and the man-

agement would be in a position at all times to adjust prices to the point at which supply and demand balanced.

While it is therefore probable that the system would be successful, if voluntarily introduced by a single company or a single industry, it is admitted that the drawing-account system could be best introduced by enacting the necessary legislation making it obligatory upon all companies employing more than a limited number of workers. As the system contemplates a just division between labor and capital of the proceeds of industry by rational methods, with judicial determination in case of disagreements, instead of the present method of fighting over the division of these proceeds between labor and capital; the public peace and the welfare of the nation would be best promoted, if society required by law that both labor and capital should adopt these methods of peaceful co-operation based upon the assurance of justice to each.

As the welfare of the nation as a whole is superior to the interests of either labor or capital, such legislation as would be necessary to establish permanent industrial peace based upon justice is fully justifiable and is not an infringement upon the lawful liberty of either capital or labor. Other fields besides that of industrial relations require legal regulation in the interest of the whole nation, and the

necessary restrictions placed upon individual liberty, in order to assure the greatest welfare of the whole society, have always been regarded justifiable. As an example the health administration of a modern country may be cited, with its laws as to medical practice, quarantine, sanitation, food adulteration, etc.

Would Destroy Trade Unionism

Labor, not less than capital, will have its objections to the plan for industrial harmony set forth in this book. Probably the first of these will be, that the drawing-account wage system would destroy trade unionism and would render the workers helpless before organized capital. Far from it. The plan would furnish organized labor with the facts (which it now lacks or obtains in a vague, inaccurate fashion) that are necessary to determine whether the workers are obtaining a fair share of the product of their industry. Instead of the present walking delegates and business agents, who have no definite or accurate means by which to find out whether a business or an industry is prospering and the degree in which it is prospering, the proposed plan would substitute trained auditors, certified public accountants, employed by and under the exclusive control of labor, who would by law have the fullest and freest access to all the books and records

of a business, and who would know, positively and to the dollar, just what the business was earning and what it could and should afford to pay the workers, while still assuring a fair return to capital.

These auditors could effectively expose and thwart the methods that high finance now uses with impunity to deceive labor through the organization of subsidiary and affiliated companies meant to hide excessive profits, which might otherwise come to the attention of labor leaders in the public reports of large companies. This exposure is a thing which labor officials at the present time find very difficult. In vague, general terms they may accuse capital of juggling the figures of earnings and of hiding profits; but the auditors proposed under the drawing-account wage plan would be in a position to give chapter and verse, definite facts and exact figures and dates showing how, when, and to what extent profits had been unfairly diverted from the business for the purpose of deceiving the workers into the belief that the business was unprofitable, or at least only very moderately profitable.

Organized labor would find a wider and more effective field for its efforts in selecting keen and capable auditors, and in framing and pushing legislation necessary to abolish the abuses which these auditors should uncover, than it does now in its uncertain efforts to discover the status of a business

through walking delegates or business agents, and in seeking to enforce demands framed more or less in the dark, as regards the facts upon which they are supposed to be based. Under the present system labor leaders are compelled to reduce all the workers in a craft to a dead level. This, of course, simplifies negotiations with capital, but it also effectively reduces labor to the status of a commodity, in spite of all proclamations to the contrary. Under the proposed system, in which the preliminary wage of every man would be determined by free and untrammeled competition, and in which the total wages of the workers in a business would be finally determined exactly by what they could make the business earn, the functions of labor leaders would be more complex and difficult, and therefore more necessary than their present activities. Their function would be to keep in touch with the demand for labor everywhere, to find jobs at better pay for the men whose pay was under the normal, and thus to make the necessary elimination of the marginal producers as painless as possible to the workers.

Progressive labor leaders would have important new duties under the proposed system which they exercise at present on only a very small scale. With the workers receiving the excess earnings of industry, it would become one of the most important functions of their leaders to direct their investment

policies wisely toward the acquisition of the control of industry by the workers. After this important work began to reach completion, and labor began to be represented in its own right as stockholder on the boards of big business, the leaders of labor would have the far more difficult and important work of representing labor in the actual management of industry and the responsibility for the earnings, in the co-ordination and co-operation of labor directors with investment directors; and finally in providing for the discipline of the workers from the standpoint of effective production and profit, and not merely from the standpoint of loyalty to the union. Trade unionism, therefore, far from being destroyed by the drawing-account wage plan, would assume a far greater importance in industry. The only difference would be, that its activities would be wholly constructive and never destructive.

Would Tie the Worker to His Job

A second objection on the part of labor will be that any plan, whatever it may be called, that in effect witholds part of the worker's wage until the end of the year will tie the worker to his job and will make it hard for him to accept a better position at any time during the year. It is admitted that the plan will tend to diminish the turnover of labor, because the men will feel that they have a stake in the

business; that, if they put in a good year's work and produce a large profit, they will benefit accordingly. A diminished turnover of labor in industry, however, is a benefit both to capital and to labor, and to the consumer as well. It is the elimination or reduction of one of the serious wastes of industry.

The proposed plan, however, does not necessarily require a man to remain with a company for the full year, in order to obtain his full earnings for his work. The final distribution to the workers being a certain percentage of the annual payroll, given to each worker in proportion to his fraction of that payroll, the worker who leaves during the year would receive his proportionate share of the final dividend for the period that he was employed. If he remained for three months, he would receive one-fourth the amount of a worker who was employed for the full year. The only tie that the worker would feel toward his job would be the interest that he took in an enterprise, all the profits of which above a fixed dividend should come to the workers of brain and brawn who produced those profits.

Capital Would Find a Way to Hide the Profits

A further objection on the part of labor will probably be, that capital would find a way to hide profits, so that labor would not get any surplus earnings above the preliminary wage. In answer

to this objection it may be said that, if capital could not increase its dividends and could not capitalize any surplus, it would have no motive for hiding the profits from the workers. It could gain nothing from such a practice.

It must be admitted, however, that there would remain the difficulty of preventing the diversion of profits, as previously mentioned, to fictitious or unnecessary light subsidiary or affiliated companies. If the plan here proposed, however, were made obligatory by law in all industries, so that such light subsidiary or affiliated companies could not issue any capital stock except such as represented hard cash actually paid in, and upon this they could pay no more than the fixed dividend rate, this would effectively destroy the motive for diverting excess earnings from one company to another. Capitalists would not be disposed to set up an affiliated company with actual cash capital, if that cash capital could not by any device bring them any greater dividend in the affiliated company than it would in the parent company.

An additional answer to the objection under consideration is, that the workers would be represented by competent auditors who would have full access to all the records, receipts and disbursements of a company, and any efforts at fraudulent diversion could be readily detected by them, and such

accounting methods could be protested and, if necessary, appealed to the decisions of the courts.

The Question of Hours Would Not be Reduced to Any Basis of Reason by this System

Labor would probably object also, that the drawing-account wage plan does not reduce questions of hours of labor to any basis of reason, and therefore leaves one of the two great fields of capital-labor disputes to be settled by economic warfare. The negotiations regarding hours would still be based upon the arbitrary demands of the parties as they are at present, and would thus result in strikes and lockouts in spite of the new wage plan.

This, it must be admitted, is a real difficulty. At least this, however, may be said in answer to the objection. Disputes regarding hours of labor would be greatly softened by the community of interest of both labor and capital, under the proposed system, in making the profits as large as possible. Workers would not object so strenuously to an additional hour of work, provided it did not overtax their strength, if they knew that the profits of the additional hour would come principally or wholly to their own pockets. For instance, if a business operating on a certain schedule was fully earning its fixed dividend, any additional time put in by the workers would be practically on their own

account and entirely for their own profit. On the other hand, capital would not be so apt to insist upon longer hours, if its dividend was being fully and safely earned during shorter hours, because it could not obtain any advantage whatever for itself from the longer hours. Under these circumstances it is believed that even questions of hours could be adjusted more readily than they are at present without resort to lockout or strike.

It is true, capital might insist upon unreasonably long hours of labor for the purpose of establishing a wide margin of safety for dividends. The question of what constitutes a reasonable number of hours for a day's work in each industry is hardly susceptible of a definite and indisputable solution; and in the interest of economic peace throughout the country it would seem proper that the standard week's work in each industry should be settled by law. It has already been so fixed by law at forty-eight hours in a number of countries.

Inequality of Opportunity Due to Inheritance not Corrected by this System

One of the injustices of the present system of society that was pointed out in the first part of this book as a contributory cause of industrial unrest is the inequality of opportunity among the citizens of a country resulting from the present inheritance

system, which permits one man to pass his entire life in the most luxurious ease and wealth, with his every material want satisfied with the richest and costliest products, although he has never rendered the slightest service to society in order to entitle him to these fruits; while another man, working hard all his life, denied the opportunity of a better education which might enable him to rise in the world, although producing a large amount of goods for the wants of society, receives but the most meagre livelihood in return, and in his old age is allowed to perish in want. Labor may object to the drawing-account wage plan, that it does nothing to correct this crying injustice.

While it is admitted that the proposed plan does not cure this evil, it at least tends to diminish it by providing a wider distribution of wealth among the workers, and by preventing its excessive concentration in the hands of a few rich capitalists. For the full correction of this economic injustice, however, separate legislation is necessary that is based upon the principle that, while every man has a right to enjoy the fruits of his own labor, no man has a right to enjoy the fruits of the labors of others, unless he himself renders or has rendered some equivalent service to society. The specific application of this principle, however, would carry us beyond the immediate investigation undertaken in this volume.

CHAPTER XV

INTERNATIONAL ASPECTS OF THE LABOR PROBLEM

Organized labor has long recognized that labor problems cannot be permanently solved upon a local basis, nor even upon a national basis, but that they are international in their scope and require international co-operation and international co-ordination for their full and satisfactory solution. For this reason labor unions in all countries have united into national bodies, and these national bodies have affiliated with international organizations.

The three principal international bodies formed by organized labor are the Amsterdam body, or the so-called "Second International"; the Moscow body, the so-called "Third International"; and the International Labor Organization affiliated with the League of Nations. The first two of these three bodies are based upon the principle that there is a permanent and unalterable antagonism between labor and capital, and they were organized for the

purpose of enabling labor to fight capital across international boundaries, as well as within single nations. The third body is based upon the principle, that labor, capital and the nation at large are mutually interdependent, and that these mutual interests are best served by the co-operation of labor and capital under the impartial regulation of the nation at large. It will at once be seen that the principle upon which the International Labor Organization has been established is the principle that has been unfolded in this volume.

Humane Standards Must be Universally Enforced to be Permanently Established

The world is an economic unit. All the commercial nations compete with one another in the open markets of the world. World prices as established by this competition largely determine the possible terms under which labor in any of the commercial countries can find employment. While differences in machinery and other equipment, in training and skill, may temporarily enable a country to compete in the world markets with other countries that have lower standards of labor, as soon as machinery and skill begin to approach equality the country with the lowest standards of labor will capture the markets, and the workers in the higher standard countries will suffer from in-

creasing unemployment until their standards have been reduced to a competitive basis. "The failure of any nation to adopt humane conditions for labor is an obstacle in the way of other nations which desire to improve the conditions in their own countries." (Preamble, Part XIII, the labor section, Treaty of Versailles.)

This difficulty applies particularly to the establishment of a reasonable period of labor, and to the exploitation of the labor of women and children. At the present moment the Japanese and Chinese cotton manufacturers are largely capturing the far eastern markets from the British manufacturers, because of the excessively long hours of labor in the newer, unregulated industries of the Far East. An instance nearer home for Americans may be found in the manner in which the cotton goods trade is being captured by the Southern States from the manufacturers of Massachusetts and other New England States, because the latter legally maintain the forty-eight hour week for labor, while the former do not. Both the countries and the states of the United States which permit excessive hours of labor also permit the exploitation of the labor of young children more fully than the higher standard countries and states.

Through the pressure of competition the lower standard forces down the higher standard. It is

forcing Massachusetts manufacturers to lower their standards of labor by removing their mills to the South. Not only is this to the disadvantage of labor, but it is also a costly process for capital. About the time that the Massachusetts manufacturers have finished dismantling their New England factories, and have become thoroughly established in the South probably some western state will make a bid for the cotton manufacturing business by lowering still further the bars regulating the hours of labor, etc., and the whole expensive readjustment will have to be made again. The same instability results from varying standards between one nation and another. Capital, being mobile, will be withdrawn from the high standard countries in which capitalists find it difficult to operate for the world markets, and will migrate to countries with the lower standards which enable it to operate at a super-normal profit. As in the case of the American states, however, so likewise after British and other European capital has been attracted to Japan and China because of the lower standards in these countries, it is altogether likely that India will make an effort to capture the cotton goods business in the Far East by establishing still lower standards of hours, working conditions, and exploitation of child labor.

It is clear, therefore, that if a standard forty-

eight hour week, or any other period, is to be firmly and permanently established in any country, it must be established in all the commercial countries of the world which compete with that country in the world market. The problem is not a national problem, much less a state problem. It is an international problem of labor, and the international co-operation necessary for its solution should be one of the goals of organized labor in all countries. There is perhaps no more effective method of enforcing the forty-eight hour week, and at the same time of leaving sufficient elasticity for emergencies in industry, than the method of discouraging overtime and night work by a rate of pay higher than that of the regular, normal rate of pay, say one and one-half times as high.

Disadvantages of Tariffs for the Protection of Labor Standards

Labor has been sedulously taught by capital that high tariffs mean high wages for the workmen. The workers have not been so sedulously taught that they also mean high prices for whatever the workmen buy. Especially have they not been taught that, by the very nature of the case, the increase in prices must more than offset the increase in wages; so that the worker's real wage, his purchasing power, is decreased by tariffs.

By the very nature of the case. For a tariff is levied upon such articles as cannot be produced in a country in fair and open competition with other countries. Upon such articles as a country can produce and sell at home and abroad in competition with other countries no tariff is necessary. A tariff upon articles that a country is exporting in competition with other countries would be a mere dead letter. The manufacturer of any tariff-protected article, therefore, is using both labor and capital to produce less exchange value than would be produced by manufacturing articles for which the country is better adapted and in which it can compete not only at home, but abroad, and using these exchange values to purchase abroad the article that would need tariff protection.

The rate of the tariff is the measure of the loss to labor and capital. If a 60% tariff on an article is necessary in order to enable it to be manufactured in a country, then it is costing that country 60% more to manufacture that article for itself than it would to obtain the article through the export of commodities for whose profitable manufacture and sale in the competitive world markets no tariff is required.

Using labor and capital with less result means that there is a reduced amount of the product of industry, and if less is produced there will be less

to consume, totally irrespective of the course of the nominal or money wages. In other words, the increase in prices will more than offset the increase in nominal wages made possible by a tariff which diverts labor and capital to lines of manufacture for which a country is not adapted.

In order to make this clear let us take an extreme example. It is possible that rubber could be produced in America by the use of perhaps ten times the capital and the labor that are required in tropical countries. That would mean that the cost of a pound of rubber would be ten times the cost in those countries. In order to "protect the home industry" it would be necessary to put a tariff of 900% ad valorem on the importation of rubber. Every consumer in the country would have to pay ten times the present price for rubber in all of the many articles into whose manufacture it enters. But the rubber workers would not get ten times their present wage: there would simply be used up the labor of ten times as many workers, or ten times the number of days' work of the present workers.

The same result would follow, if a mountainous country suitable only for mining undertook to raise its own wheat and placed a sufficiently high tariff upon the importation of wheat to enable home growers to compete. The price of wheat would rise enormously for every one in the country, but

the wages of farm workers would not rise. There would simply be a great many more men's work necessary to grow the country's needs, than the men's work which would be necessary in mining a sufficient quantity of minerals to pay for the same amount of wheat from abroad. The work of the additional number of men necessary would be wasted work and would be reflected in the diminished purchasing power of wages in all lines throughout the country. In a smaller degree this is the actual result of all tariffs upon the welfare of the workers.

Freedom of Migration for Workers

Only one further international labor problem will be here mentioned, as the object of this chapter and the closing one is not an exhaustive treatment of all international aspects of labor problems and of the problems of capital, but simply an indication of a few of the most prominent of these international problems, so that the reader may see the necessity of international co-operation and international organization as a means of their final solution. The freedom of the law-abiding worker to migrate to any country where he may be able to better his lot, and where his labor is in demand, is not only an elementary right of every human being of which no government may justly deprive him;

but this unrestricted freedom is also for the best interest of labor everywhere. A world market for labor would be far more stable and consequently would entail far less unemployment than a narrow, restricted, national or local market.

To see the force of this argument the reader need only think what would be the result, if workers were forbidden to leave their native towns in search of employment, as was the law in former ages in a number of sections of Europe. One town might have a surplus of workers with many unemployed and suffering want, while the very next town was suffering from a dearth of workers to carry on its manufactures. Free mobility of labor would solve both of these problems at one time.

The wider the territory, the more diversified the industries, and the greater the facilities for travel in a country, the more constant and stable is the total demand for labor. This holds true not only of individual countries, but also of all commercial countries together. The greatest possible freedom of workers to seek employment in any country where there is a dearth of workers, and to leave any country where there is a surplus of workers, would make for the greatest possible constancy and stability in the demand for labor throughout the world and would minimize unemployment. It would produce a sea-level of labor demand whose fluctuations

would be much smaller than those of the little national reservoirs of labor formed by restrictive legislation, in defiance of the natural and inalienable right of a law-abiding human being to seek his fortune wherever he thinks he can best find it.

Not only would such freedom of migration for workers tend to minimize unemployment throughout the world; but (if the corresponding freedom of capital to move freely without legal restrictions throughout the world were likewise established, together with a free and unrestricted market for products) the result would be that labor in all countries would be employed at the kind of work in which it was most productive and in which the commodities could therefore be produced most cheaply, and this cheapening of products would mean an increase in the real wages of labor everywhere. The workers would have a greater purchasing power and a higher standard of living than they now have.

International Organization Necessary

For the proper handling of the international labor problems here considered and others which might be mentioned international co-operation and international organization are necessary. Satisfactory international labor standards can be maintained only by a world organization to enforce them in all countries. The statesmen who framed the

Versailles Treaty perceived that permanent international peace is impossible until the hardships of our modern industrial system have been removed, and they also perceived that this cannot be done with the nations acting independently and at cross purposes. They therefore provided for an International Labor Organization, whose purpose it would be to take up the larger problems of industrial relations upon a world-wide basis and to establish world-wide standards of labor. While the organization at present is in an embryonic stage and has not been able thus far to accomplish much, time and experience may develop the International Labor Organization into an effective force for the establishment of humane standards of labor in all countries, thus putting the workers and the employers of all countries upon fair and equal terms of competition, and giving the workers in all countries fair and equal conditions of toil.

CHAPTER XVI

INTERNATIONAL ASPECTS OF THE PROBLEMS OF CAPITAL

A Sea-Level of Business

From the standpoint of capital, even more than from that of labor, the world is an economic unit. Capital throughout the world is far more mobile than labor. It has no family ties or ancestral homes to keep it in one country, when greater inducements are offered in another. Capital, unless artificially hampered by political restrictions, is as liquid as water in seeking its level, and it will flow freely from a country where it is overabundant, and therefore commands low rates, to a country where it is scarce, and hence commands higher rates.

The products of industry, too, which are merely capital in the form of salable commodities, will seek their markets impartially in any country of the world, except when trade is hampered by political interference and restrictions. There is no sentiment in business, and the manufacturer sells his

product wherever there is the greatest demand for it and wherever the best price is offered in consequence of that demand, whether his market be in the city of manufacture or at the antipodes. There are no racial antipathies between occidental capital and oriental capital, and no acclimatization is necessary for capital in passing from frigid to tropical zones.

Capital, when unhampered by political restrictions, tends to establish a world-wide money market, and to establish a sea-level of interest rates throughout the world, and this tends to make the rates for money stable and constant everywhere. One must not, of course, lose sight of the fact that the return for capital is composed of two elements, interest and risk insurance. The element of risk varies considerably in different parts of the world, owing to the insecurity of governments, the uncertainty of legal processes, and the varying moral character of peoples.

Since a stable and even rate for money and for the credit which rests upon it is one of the most important, if not the most important, prerequisites for stable and successful business and constant and full employment in all countries, it is evident that in the long run the freest possible flow of capital in accordance with demand throughout the world is most beneficial, not only to capital, but to labor as well.

Governmental Restrictions Hampering the Effectiveness of Capital

Governments almost everywhere, however, have abused their functions not only in denying workers their inalienable right to seek their fortunes in any part of the earth that they think best, provided they obey the laws of the land to which they go; but they have also denied to capitalists their inalienable right to use and trade with their capital freely and without restriction in any country that they choose, provided again that they observe the laws of the land in which their capital is employed. While the former practice, as shown in the previous chapter, has hindered the natural distribution of labor according to the demand for it, and hence has frustrated the fullest possible employment and prosperity of the workers, the latter practice has hampered capital in finding the fields where it is most in demand, where it can be most profitably employed, and where it can be most productive for the good of society.

The short-sighted, intense nationalism which prevails in the world at present, largely as a result of the world war, is causing every little nation on earth to try to be self-contained and self-sustaining, by means of the imposition of high tariffs on imports, embargoes on exports, and restrictions of

various kinds upon the export of capital, the making of foreign loans, etc.

All of these restrictions are justified by statesmen on the ground that they are necessary precautions against a possible war, in which their countries would be at a disadvantage, if they were dependent for anything upon the countries with which they were at war. That may be true enough; but what these statesmen fail to see is, that these very measures which they are taking are themselves very likely to cause the wars that they fear. If a country without coal, for instance, is not permitted to receive that necessary commodity from a neighboring territory on account of an export prohibition, it is very likely to conclude that it is necessary to conquer and annex the coal-producing region; whereas, if perfect freedom of export and import should prevail, no such motive would arise.

Take the restrictions of tariffs. One country excludes by a prohibitive tariff a product upon whose export another country depends for its prosperity. That causes bad blood, and the second country retaliates by a prohibitive tariff upon an important article of export of the first country, and the tariff wars thus started engender a growing antagonism between the two countries which may lead finally to war.

All these restrictive measures of governments

compel capital to employ itself in less productive methods than it would do if it were free, and the result is inevitably that less commodities are produced for the use of mankind, and therefore mankind is far more poorly supplied than it would otherwise be. A lower standard of living is imposed upon the whole world, and this is especially felt by the workers of the world, whose means are limited. There is hardly a more fundamental and basically important problem for both capital and labor than to establish an international order that will permit the free flow of capital and commodities throughout the world, unhampered by tariffs, embargoes, or other restrictions.

Inviolability of Foreign Investments

One of the most potent means of equalizing price and wage levels, of establishing a sea-level of business conditions, and of promoting the stability of business and the constancy of full employment is the free and unrestricted flow of capital from one country to another. For the same reason that the worker has an inalienable right to seek his fortune in any part of the world, the capitalist has a personal right to trade, to transfer or to invest his capital wherever he feels that it will be most productive and will best promote his welfare; and any governmental seizure of such goods or capital, whether

upon land or sea, whether in peace or war, is an abuse of governmental power.

Capital will never be fully free to seek its most productive fields until it has proper security against seizure by governments, upon any pretext or under any circumstances whatever. As long as the capitalists have reason to fear that investments made in foreign countries will be confiscated, excessively taxed, or otherwise unjustly discriminated against, capital will be hampered in its free flow to those countries, both to their disadvantage and to the disadvantage of the capitalists who would have made the investments. As a result capital is forced into less productive investments and society is poorer by the reduction in its output.

If copper or lead mining companies, for instance, cannot invest their capital in a rich mining section of the earth because of political dangers and restrictions, they will be obliged to use the capital in operations in some other country where it is safe, but where the output for a given amount of capital and labor is perhaps only half as much copper or lead as it would have been in the richer mining section. As a consequence the prices of copper or lead throughout the world markets will be twice as high as they would be with the free flow of capital; and there will be higher prices for all the numberless articles into the manufacture of which these metals

enter. Mankind, therefore, is poorer on account of every restriction upon the free flow of capital throughout the world; and governmental seizure of foreign investments at any time, whether in peace or war, is a gross abuse of the functions of government.

World Organization Necessary to Establish Industrial Freedom

To sum up the international aspects of the problems of labor and capital which have been previously discussed, industrial liberty, the industrial peace of the world, and the welfare of both workers and capitalists demand complete freedom to work, trade or invest in any part of the world without restrictions, tariffs, or prohibitions by governments. The relation of industrial peace to political peace is extremely intimate. Permanent international peace cannot be achieved while the economic warfare of tariffs, embargoes and restrictions of every kind continues. And the nations of the world feel that they cannot forego the protection afforded by these economic restrictions until they have full national security. The establishment of political peace and of economic peace must therefore be worked out together. The statesmen of a great majority of the nations of the earth have seen that the solution of these problems demands interna-

tional co-operation and some form of world organization.

As this subject has been fully discussed by the writer in another work, "The Road to World Peace," the ground will not be again traversed here. While the principal object of the present work has been to outline the drawing-account wage system as a solution of the problem of industrial harmony, it has been thought advisable to add these last two brief chapters, in order to emphasize that the best interests of labor, capital and of the consumer demand that the whole subject of industrial relations be handled upon a world basis, and that the world be treated as an economic unit, as indeed it is.

Date Due

OCT 17 '73			

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